

Pricing Supplement dated 19 January 2018

Morgan Stanley B.V.

Issue of 1,182 Index Linked Certificates due 2020 (the "**Tranche 5 Securities**") to be consolidated with the Issue of 123,109 Index Linked Certificates due 2020 (the "**Tranche 1 Securities**"), Issue of 1,937 Index Linked Certificates due 2020 (the "**Tranche 2 Securities**"), Issue of 7,683 Index Linked Certificates due 2020 (the "**Tranche 3 Securities**") and Issue of 430 Index Linked Certificates due 2020 (the "**Tranche 4 Securities**") (the "**Certificates**" or the "**Securities**")

Guaranteed by Morgan Stanley

under the

Regulation S Program for the Issuance of Notes, Series A and B, Warrants and Certificates

The Offering Circular referred to below (as completed by this Pricing Supplement) has been prepared on the basis that any offer of the Securities in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (as amended, including by Directive 2010/73/EU) (together, the "**Prospectus Directive**") (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Securities. Accordingly any person making or intending to make an offer in that Relevant Member State of the Securities may only do so in circumstances in which no obligation arises for the Issuer or any Distribution Agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Distribution Agent has authorised, nor do they authorise, the making of any offer of Securities in any other circumstances.

Warning: Neither this Pricing Supplement nor the Offering Circular referred to below constitutes a "prospectus" for the purposes of Article 5.4 of Directive 2003/71/EC (as amended, including by Directive 2010/73/EU, the "**Prospectus Directive**"), and the Pricing Supplement and the Offering Circular have been prepared on the basis that no prospectus shall be required under the Prospectus Directive in relation to any Securities be offered and sold under hereby.

THE CERTIFICATES ARE NOT DEPOSITS OR SAVINGS ACCOUNTS AND ARE NOT INSURED BY THE U.S. FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY OR INSTRUMENTALITY OR DEPOSIT PROTECTION SCHEME ANYWHERE, NOR ARE THEY OBLIGATIONS OF, OR GUARANTEED BY, A BANK.

PART A – CONTRACTUAL TERMS

THE CERTIFICATES DESCRIBED HEREIN AND ANY GUARANTEE IN RESPECT THEREOF, AND THE SECURITIES TO BE DELIVERED ON EXERCISE OR REDEMPTION OF THE CERTIFICATES (IF ANY), HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. NEITHER THE ISSUER NOR THE GUARANTOR IS REGISTERED, OR WILL REGISTER, UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED. TRADING IN THE CERTIFICATES HAS NOT BEEN APPROVED BY THE U.S. COMMODITY FUTURES TRADING COMMISSION UNDER THE U.S. COMMODITY EXCHANGE ACT OF 1936, AS AMENDED.

THE CERTIFICATES DESCRIBED HEREIN, ANY INTEREST THEREIN, ANY GUARANTEE IN RESPECT THEREOF, AND THE SECURITIES TO BE DELIVERED ON THE EXERCISE OR REDEMPTION OF THE CERTIFICATES (IF ANY) MAY NOT BE OFFERED, SOLD, PLEDGED, ASSIGNED, DELIVERED OR OTHERWISE TRANSFERRED, EXERCISED OR REDEEMED AT ANY TIME, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT). HEDGING TRANSACTIONS INVOLVING ANY "EQUITY SECURITIES" OF "DOMESTIC ISSUERS" (AS SUCH TERMS ARE DEFINED IN THE SECURITIES ACT AND REGULATIONS THEREUNDER) MAY ONLY BE CONDUCTED IN ACCORDANCE WITH THE SECURITIES ACT. SEE "*SUBSCRIPTION AND SALE*" AND "*NO OWNERSHIP BY U.S. PERSONS*" IN THE ACCOMPANYING OFFERING CIRCULAR DATED 30 JUNE 2017. IN PURCHASING THE CERTIFICATES, PURCHASERS WILL BE DEEMED TO REPRESENT AND WARRANT THAT THEY ARE NEITHER LOCATED IN THE UNITED STATES NOR A U.S. PERSON AND THAT THEY ARE NOT PURCHASING ON BEHALF OF, OR FOR THE ACCOUNT OR BENEFIT OF, ANY SUCH PERSON.

THE CERTIFICATES ARE NOT RATED.

This document constitutes the Pricing Supplement relating to the issue of the Certificates described herein. This Pricing Supplement must be read in conjunction with the Offering Circular dated 30 June 2017 and the supplements to the Offering Circular dated 31 August 2017 (the "**Offering Circular**"). Full information on the Issuer, the Guarantor and the offer of the Certificates is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. Copies of the Offering Circular are available from the offices of Morgan Stanley & Co. International plc at 25 Cabot Square, Canary Wharf, London, E14 4QA. The Offering Circular has also been published on the website of the Irish Stock Exchange (www.ise.ie).

Information Concerning Investment Risk – See Annex

Potential investors should be aware that the Certificate creates an option exercisable by the Securityholder and that in the absence of such exercise, there is no obligation upon the Issuer to indemnify such Securityholder.

GENERAL

- | | | | |
|----|------|-----------------|---------------------|
| 1. | (i) | Issuer: | Morgan Stanley B.V. |
| | (ii) | Guarantor: | Morgan Stanley |
| | (i) | Series Number: | W1330 |
| | (ii) | Tranche Number: | 5 |

To be consolidated with the Tranche 1 Securities and Tranche 2 Securities, Tranche 3 Securities and Tranche 4 Securities on the Issue Date of the Tranche 5 Securities

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|----|-----|---|---------|
| 2. | (i) | Aggregate Number of Securities in the Series: | 134,341 |
|----|-----|---|---------|

- (ii) Aggregate Number of Securities in the Tranche: 123,109 – Tranche 1
1,937 – Tranche 2
7,683 – Tranche 3
430 – Tranche 4
1,182 – Tranche 5
3. Settlement Currency: U.S. Dollar (“USD”)
4. Issue Date: 3 July 2017 – Tranche 1
13 October 2017 – Tranche 2
25 October 2017 – Tranche 3
15 November 2017 – Tranche 4
19 January 2018 – Tranche 5
5. Issue Price: USD 1,000 per Certificate- Tranche 1
USD 1,026.39 per Certificate – Tranche 2
USD 1,032.42 per Certificate – Tranche 3
USD 1,032.89 per Certificate – Tranche 4
USD 1,033.69 per Certificate – Tranche 5
6. Form of Securities: Registered Securities:
Global Registered Security registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, exchangeable for Individual Registered Securities in the limited circumstances described in the Global Registered Security
7. Security Style: American Style Securities
(Condition 5)
- (i) Exercise Period: The period from (but excluding) the Observation Start Date to (and including) the Expiration Date, such dated being a Scheduled Trading Day in respect of the Underlying
Observation Start Date being, 26 June 2017
- (ii) Potential Exercise Dates: Each day from and including the Commencement Date to and including the Latest Exercise Time on the Expiration Date
- (iii) Commencement Date: 26 June 2017
8. Equity-Linked Settlement Provisions: Applicable
(Condition 9)
- (A) Single Share Securities]/[Share Basket Securities: Not Applicable
- (B) Single Index Securities/Index Basket Securities: Applicable

- (i) Whether the Securities relate to a single index or a basket of indices (each, an "Index") and the identity of the sponsor of an Index (each an "Index Issuer") Single Index Securities
Morgan Stanley Protected Vol Premium Index, (*Bloomberg*[®] code: MSUSSPVP) sponsored by Morgan Stanley
- (ii) Exchange(s): Not Applicable
- (iii) Related Exchange(s): None specified
- (iv) Averaging Dates: Not Applicable
- (v) Averaging Date Disruption: Not Applicable
- (vi) Observation Date(s): Not Applicable
- (vii) Observation Period: Exercise Period
- (viii) Determination Date(s): 26 June 2020
- (ix) Determination Time(s): As per the Conditions
- (x) Determination Agent responsible for calculating the Cash Settlement Amount: Morgan Stanley & Co. International plc
- (xi) Provisions for determining Cash Settlement Amount: Unless previously redeemed or purchased and cancelled by the Issuer, the Certificateholder shall receive on the Cash Settlement Payment Date, in respect of each Certificate payment of a Cash Settlement Amount in accordance with the following provisions, as determined by the Determination Agent:

$$Ratio \times \left(\frac{S_T}{S_0} \times AccrualFactor(T) \right),$$

Where:

S_T means the official published level of the Index on the Determination Date multiplied by $(1 - exit\ fee)$

S_0 means the official published level of the Index on the Observation Start Date multiplied by $(1 + entry\ fee)$

"Accrual Factor (T)" means, the value of the Accrual Factor on the Determination Date

"Exit Fee" means 0.20 per cent.;

"Entry Fee" means 0.20 per cent.;

"Accrual Factor" means,
 $AccrualFactor(t)$
 $= AccrualFactor(t - 1)$
 $\times \left(1 + \frac{FEDF(t - 1)}{360} \times Act \right),$

"Act" is the number of calendar days from but excluding the Observation Day immediately preceding Observation Day t to

and including Observation Day t;

“**Accrual Factor (t-1)**” means, is the value of the Accrual Factor on Observation Day (t-1) (*AccrualFactor(t)* as of Observation Start Date, *AccrualFactor(0)*, is equal to 1);

“**FEDF(t-1)**” means, the level of the US Federal Funds Effective Rate as published on Observation Day (t-1) (Bloomberg: FEDL01 Index)

“**Ratio**” means, 1,000

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|--------|--|---|
| (xii) | Provisions for determining Cash Settlement Amount where calculation by reference to Index is impossible or impracticable or otherwise disrupted: | Determination Agent determination |
| (xiii) | Weighting for each Index: | Not Applicable |
| (xiv) | Additional Disruption Events: | Change in Law, Hedging Disruption shall apply |
| (xv) | Business Day Convention: | Following Business Day Convention |
| (xvi) | Additional Business Centre(s): | New York |
| (xvii) | Other special terms and conditions: | None |
| (C) | Single ETF Securities/ETF Basket Securities: | Not Applicable |
| 9. | Commodity-Linked Settlement Provisions | Not Applicable |
| | (Condition 10 Error! Reference source not found.) | |
| 10. | Currency-Linked Settlement Provisions | Not Applicable |
| | (Condition 11) | |
| 11. | Inflation-Linked Settlement Provisions | Not Applicable |
| | (Condition 12) | |
| 12. | Property-Linked Redemption Provisions | Not Applicable |
| | (Condition 13) | |
| 13. | Fund-Linked Redemption Provisions | Not Applicable |
| | (Condition 13) | |

14. Bond-Linked Settlement Provisions Not Applicable
(Condition 15)

EXERCISE

15. Expiration Date: 26 June 2020
16. Latest Exercise Time: 11:00 a.m. Brussels time (in the case of Euroclear Bank), or
11:00 a.m. Luxembourg time (in the case of Clearstream,
Luxembourg)
17. Minimum Exercise Number: Not Applicable
(Condition 6.9)
18. Permitted Multiple: Not Applicable
(Condition 6.9)
19. Deemed Exercise: Applicable
(Condition 6.6)

PROVISIONS RELATING TO SETTLEMENT

20. Call Option Not Applicable
(Condition 7)
21. Autocallable Early Settlement Not Applicable
(Condition 17)
22. Settlement Basis: The Securities are Cash Settlement Securities.
(Condition 5)
23. Physical Settlement Securities: Not Applicable
24. Cash Settlement Securities: Applicable
25. Strike Price: 352.41
26. Settlement Price: Not Applicable
27. Valuation Time: As per the Conditions
28. Valuation Date: Expiration Date

In the event an Exercise Notice is sent by the holder of the
Securities, the Exercise Date
29. Averaging Dates: Not Applicable
30. Observation Date(s): Not Applicable
31. Strike Date: 26 June 2017

32. Cash Settlement Payment Date: 6 July 2020, subject to adjustment in accordance with the Business Day Convention such that the Cash Settlement Payment Date will always be at least 5 Business Days following the Expiration Date.

GENERAL PROVISIONS APPLICABLE TO THE SECURITIES

33. Record Date: As set out in the Conditions
34. Determination Agent: Morgan Stanley & Co. International plc
35. Clearing System: Euroclear and Clearstream, Luxembourg
36. Minimum Transfer Amount: 1 Certificate
37. Inconvertibility Event Provisions: Not Applicable
(Condition 18)
38. Illegality and Regulatory Event: (Condition 24)
- Early Settlement Amount (Illegality and Regulatory Event): Early Settlement Amount (Illegality and Regulatory Event) – Fair Value Less Costs
39. CNY Center: Not Applicable
40. Implementation of Financial Transaction Tax: Not Applicable
41. Other special terms and conditions: Early Cash Settlement Amount.

If Holder Exercise applies, then Early Cash Settlement shall apply for each Certificate in USD calculated as follows:

$$Ratio \times \left(\frac{S_t}{S_0} \times AccrualFactor(t) \right)$$

Where:

S_t means the official published level of the Index on the Observation Day on which Exercise Notice is delivered, multiplied by $(1 - exit\ fee)$

S_0 means the official published level of the Index on the Observation Start Date multiplied by $(1 + entry\ fee)$

$AccrualFactor(t)$ is the value of the Accrual Factor on the Observation Day on which Exercise Notice is delivered

“Accrual Factor” means the formula described in item 8(B) (xi) above;

“Observation Day” Scheduled Trading Day during the Exercise Period

“Ratio” means 1,000

DISTRIBUTION

42. (i) If syndicated, names and Not Applicable

addresses of Managers and underwriting commitments (and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)

(ii) [Date of [Subscription] Agreement] Not Applicable

(iii) Stabilising Manager(s) (if any): Not Applicable

43. If non-syndicated, name and address of Dealer: Morgan Stanley & Co. International plc
25 Cabot Square
London E14 4AD
44. U.S. Selling Restrictions: Regulation S
45. Additional selling restrictions: Not Applicable/

TAXATION

This discussion is limited to the U.S. federal tax issues addressed below. Additional issues may exist that are not addressed in this discussion and that could affect the federal tax treatment of an investment in the Certificates. Holders should seek their own advice based upon their particular circumstances from an independent tax advisor.

A Non-U.S. Holder (as defined in the Offering Circular) should review carefully the section entitled "United States Federal Taxation" in the Offering Circular.

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the pricing supplement required to list and have admitted to trading on Global Exchange Market of the Irish Stock Exchange the issue of the Securities described herein pursuant to the Regulation S Program for the Issuance of Notes, Series A and B, Warrants and Certificates.

POTENTIAL SECTION 871(M) TRANSACTION

Please see paragraph 5 of Part B – Other Information to this Pricing Supplement for additional information regarding withholding under Section 871(m) of the Code.

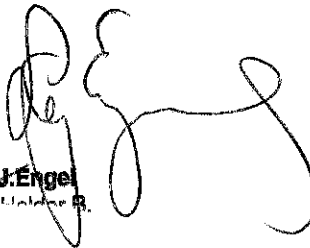
RESPONSIBILITY

The Issuer and the Guarantor accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: TMF Management B.V.
..... Managing Director.....

Duly authorised



S.A.J. Engel
Managing Director

16/1/18

PART B – OTHER INFORMATION

1. LISTING

Listing and admission to Trading: Application is expected to be made by the Issuer (or on its behalf) for the Securities to be admitted to the Official List of the Irish Stock Exchange and trading on its Global Exchange Market with effect from the Issue Date

Estimate of total expenses related to admission to trading: EUR 600

2. RATINGS

Ratings: The Securities have not been rated

3. PERFORMANCE OF EQUITY/INDEX/COMMODITY/CURRENCY/FUND/FORMULA/OTHER VARIABLE, AND OTHER INFORMATION CONCERNING THE UNDERLYING

Further details on the Underlying can be found on Bloomberg® page: <MSUSSPVP Index>

The Issuer does not intend to provide post-issuance information with regard to the underlying.

4. OPERATIONAL INFORMATION

ISIN: XS1625028599

Common Code: 162502859

Any clearing system(s) other than Euroclear Bank S.A./N.V., Clearstream Banking société anonyme and the relevant identification number(s): Not Applicable

Delivery: Delivery free of payment

Names and addresses of initial Securities Agent(s)/Securities Transfer Agent(s): As per the Conditions

Names and addresses of additional Securities Agent(s) and/or Securities Transfer Agent(s) (if any): As per the Conditions

5. **POTENTIAL SECTION 871(M) TRANSACTION** The Issuer has determined that the Certificates should not be subject to withholding under Section 871(m) of the Code, and hereby instructs its agents and withholding agents that no withholding is required, unless such agent or withholding agent knows or has reason to know otherwise.

6. **Prohibition of Sales to EEA Retail Investors:** Not Applicable

ANNEX

Summary Index Description

1. Overview

This Section provides an overview of the methodology of the Morgan Stanley Protected Volatility Premium Index (ER)_{sm} (the “**Index**”). Prospective investors should read the entire Index Description (including the Risk Factors and Investment Considerations Section) which is attached in the Annex, before making any investment decision.

The Index is rules-based and aims to extract the implied volatility premium relative to realized volatility. The *volatility premium* refers to a dynamic where the volatility implied by the prices of options written on the **Equity Index** is higher than the volatility that the Equity Index realizes over the life of those options.

The implied versus realized volatility premium has historically existed because of supply/demand imbalances, the tendency of investors to buy options for protection or directional views, and compensation demanded by option sellers for bearing negatively convex risks. These factors tend to raise the price of options, which increases the spread between implied volatility and the volatility that is realized.

The Index aims to benefit from this volatility premium by selling call and put options on the Equity Index and **Delta Hedging** daily to mitigate most of the directional exposure to the Equity Index. By taking a notionally short exposure to the volatility of the Equity Index, the Index sells implied volatility and stands to benefit if the subsequent realized volatility is lower than the implied level at trade initiation.

Because the Index is short volatility of the Equity Index, the Index could suffer drawdowns following a large spike in volatility. The Index aims to limit this risk by buying far **Out-of-The-Money** put options for gap-risk protection. Since large volatility spikes typically coincide with large selloffs in the Equity Index, an Out-of-The-Money put would typically gain in value following such events. The put is also Delta Hedged.

Every week the Index notionally trades options expiring on the fourth closest **Monthly Listed Expiry**. Each week, two days before the last **Business Day** of the week, the Index notionally sells four different strangles of the same expiry and buys Out-of-The-Money puts of the same expiry, and holds all options until expiry.

The exact options contracts and quantities to notionally trade are determined one day before the trade date by selecting the listed put and call options with absolute deltas closest to 20, 30, 40 and 50 for the short strangles, and the listed put option with absolute delta closest to 2 for the long Out-of-The-Money put. The options are Delta Hedged by trading **Equity Index Futures** at the close on every **Business Day**.

The Index has been developed by Morgan Stanley (in such capacity, the “**Index Sponsor**”) and is calculated and published on each Business Day by Morgan Stanley (in such capacity, the “**Index Calculation Agent**”).

The Index has been calculated by the Index Calculation Agent since August 17, 2015 (the “**Index Live Date**”). The Index is calculated on an end-of-day basis and was created by the Index Sponsor with an initial **Index Level** of 100 as of January 21, 2003 (the “**Index Base Date**”). Following the initial Index composition, the Index Sponsor calculated the historical Index performance from the Index Base Date until the Index Live Date. Thereafter, the Index Calculation Agent calculates the Index on a daily basis, based on the calculations detailed in the Index Calculation Section.

Unless otherwise stated, all determinations of the Index Sponsor and Index Calculation Agent shall be made according to the terms set out herein and, save for manifest error, all such determinations shall be binding on all relevant parties.

2. Risk Factors and Investment Considerations

Prior to making an investment decision in respect of any investment product, the return of which is linked to the performance of the Index, prospective investors should carefully consider all of the information set out in this document, including these Risk Factors and Investment Considerations. The risk factors and investment considerations set out below are not exhaustive and there may be other risks that a prospective investor should consider that are relevant either to its particular circumstances or more generally.

General Index Risk Considerations

The Index is rules-based and the Index Level may decline. The Index methodology was developed based on (and optimized with respect to) historical data and conditions and there are no assurances that the methodology will generate positive performance in the future. As such, past performance of the Index (actual or simulated) is not a reliable indication of future performance.

- The Index performance is subject to market risk and to potential significant declines in any future period.
- The Index may not be well positioned for changes in market conditions, and could decline significantly in value if there is a large spike in implied volatility or a large movement (up or down) in the Equity Index.
- The exposures of the Index may change over time and may not consistently reflect the intended or desired volatility exposures.
- Because costs associated with trading the options and futures contracts are included in the Index calculation, the Index must increase in value to offset the effect of such costs.

Change in Market Conditions

The Index systematically invests in options on the Equity Index, with no change in allocation or strategy as market conditions and prices change. As a result, should prices move adversely relative to the exposures of the Index, the Index could decline in value. The principal market risks of the Index include:

- The Index is short implied volatility:** The Index is notionally short Delta Hedged Equity Index strangles and notionally long Delta Hedged Equity Index Out-of-The-Money puts. In typical market conditions, the strangles are the dominant exposure since they are closer to the money than the long puts. The daily Delta Hedging removes most of the exposure to whether the Equity Index move up or down, leaving a short exposure to volatility as one of the major drivers of profit and loss. The volatility exposure consists of exposure to implied volatility – a parameter implied from observed option prices, which is a measure of the price of the options independent of other market forces (including the underlying stock price, strike price, time to expiry, interest rates, and dividends) and realized volatility. An increase in either form of volatility is typically harmful to the short Delta Hedged options on the Equity Index. Should the volatility of the Equity Index increase, the Index Level could decline.
- The index is long Out-of-The-Money puts:** The Index is notionally long far Out-of-The-Money Delta Hedged puts. If the Equity Index moves significantly lower in price, these puts become the dominant exposure of the Index, and therefore the Index becomes long both implied and realized volatility in such scenarios. If the Equity Index does

not decline significantly in price, these options will likely lose value relative to their initial purchase price. Likewise if the Equity Index declines in price but then implied and realized volatility fail to rise, the Index Level could decline.

Imperfect Tracking of Desired Exposure

The Index is designed to benefit from a positive implied-realized spread. Exposure of the Index could differ from this pure target exposure due to numerous factors, including those listed below. **The below list is not exhaustive of all of the factors that could result in the Index assuming unintended or suboptimal exposures.**

- **Delta Hedging may not perfectly hedge the risk from moves in the Equity Index.** Delta Hedging of options minimizes the exposure of these options to changes in the price of the underlying Equity Index, but does not eliminate that exposure entirely and may prove ineffective for large price moves. During such moves, the options' sensitivity to the change in the underlying price level may differ significantly from the estimate of that sensitivity (the 'delta') on the previous Business Day, and can therefore result in unhedged exposure to the underlying, with a negative or positive effect on the Index Level.
- **The Index has exposure to how the prices of Equity Index varies relative to the strikes of the options held (i.e. path dependency):** Delta Hedged options have differing exposures to realized volatility ('gamma') and implied volatility ('vega') depending on the relationship between the prices for the option underlying and the option strikes (i.e. the 'moneyness' of the options). If volatility spikes significantly when the gamma or vega of the Index is significantly short, the loss could be greater than would be realized if volatility spikes when the gamma or vega of the Index is less short or long. Similarly, the Index could fail to realize significant gains if volatility falls when the gamma or vega of the Index is only modestly short or is long.
- **The exposure of the Index can change over time.** Because the value of options decay and the sensitivities ('greeks') change over time, the Index typically has a larger sensitivity to changes in implied volatility ('vega') just after the option position is entered into and higher realized volatility exposure ('gamma') just before an options expiration date. This can contribute to the path dependency described above.
- **Because the Index trades fixed-strike options in multiple expiries, there is strike selection, skew and term structure risk.** The Index has strike specific exposure to implied volatility. Changes in skew (the implied volatility spread between puts and calls) may affect the Index Level positively or negatively. Changes in term structure (the implied volatility spread between different options maturities) may affect the Index Level positively or negatively. The choice of strikes and maturities of the options notionally traded may not be optimal for a given market environment, and may not optimally capture the volatility premium.
- **The Index is Delta Hedged with Equity Index Futures.** The Index uses Equity Index Futures to Delta Hedge the Equity Index options, which may result in imperfectly hedged Equity Index spot (directional) exposure. An imperfect hedge may arise from Equity Index Futures trading at a premium or discount to fair value and from the Equity Index Futures expiring on different dates than the options notionally traded by the Index. Different expiry dates introduce interest rate and dividend exposure, and the market pricing of these exposures can change, raising or lowering the Index Level. In addition, the Equity Index Futures positions must be rolled into new Equity Index Futures series on expiry, which may add to transaction costs.

Market and Volatility Risk

The Index Level is linked to changes in the volatility of the Equity Index. The mark to market value of the options is impacted by perceptions of future market volatility and by a number of other market factors that may change unpredictably, including macroeconomic considerations and speculation. This market risk may adversely affect the Index Level, and ultimately result in a decline in the Index Level.

Impact of costs on Index returns

Calculation of the Index Level includes costs associated with trading option and futures contracts, which will reduce the value of the Index. The number of contracts of a given option or futures contract to trade are determined on a net basis before any costs are calculated or taken into account.

Index Performance

When considering any investment with a return linked to the performance of the Index, prospective investors should be aware that the level of the Index can go down as well as up, and that the performance of the Index in any future period may not mirror its past performance. Any investment linked or related to the Index may not necessarily be the same as an investment in the underlying instruments of the Index at that time and may not reflect the return that could have been realized by an investor who entered into the hypothetical positions. The Index can, in certain circumstances, decrease to zero.

Index Disruption

The Index is subject to certain Adjustment and Disruption Provisions (including Price Source Disruption and Hedging Disruption) – see Section 5 (Adjustment and Disruption Provisions) for further details. These provisions determine the methodology for calculating the Index in situations in which it is difficult or even impossible for the Index Sponsor and/or the Index Calculation Agent to rebalance, calculate and/or publish the Index or for a financial product issuer to carry out hedging arrangements in relation to any financial product linked to the Index. As a consequence of the Adjustment and Disruption Provisions, the Index Sponsor may exercise an amount of discretion in relation to the Index (including the right to cancel the Index, change the published methodology or make adjustments to the composition of the Index) and the exercise of such discretion may have an adverse impact on the Index Level and any financial products linked to the Index.

The Index is reliant on certain underlying data license agreements with third parties. In the event that any of these underlying data license agreements are terminated for any reason, the Index Sponsor and/or the Index Calculation Agent may be unable to continue compiling and/or calculating the Index in its current form.

Research

Morgan Stanley may issue research reports on securities that are, or may become, constituents of the Index. These reports are entirely independent of the Index Calculation Agent's obligations hereunder.

No Active Management

The Index is quantitative and is not actively managed by Morgan Stanley and Co. LLC or its affiliates ("Morgan Stanley") or any third party. Accordingly, the Index will not be actively adjusted to reflect market conditions. Morgan Stanley is not acting as a fiduciary for, or an advisor to, any investor in respect of the Index.

Reliance on Information

Calculations related to the Index are based on information obtained from various sources. When using such information, Morgan Stanley and the Index Calculation Agent have relied on, and will rely on, these sources.

Index Sponsor's Powers

The application of the methodology described herein by the Index Sponsor shall be conclusive and binding. However, the Index Sponsor may supplement, amend (in whole or in part), revise or withdraw these Rules at any time. Such a supplement, amendment, revision or withdrawal may lead to a change in the way the Index is calculated or constructed and may affect the Index in other ways, including future performance. Without prejudice to the generality of the foregoing, the Index Sponsor may determine that a change to the Rules is appropriate in order to update the Rules following a Disruption Event or to address an error, ambiguity or omission. The Rules may change without prior notice. All of the above may affect the Index Level and the value of any financial products linked to the Index.

The Index Sponsor shall have the right, in its sole discretion, to cease compiling, calculating and publishing values of the Index if at any time the Index Sponsor determines that the Index no longer meets or will not be capable of meeting the criteria established by the Index Sponsor or otherwise determines that the Index shall no longer be calculated.

Calculations and Determinations by the Index Calculation Agent

The Index Calculation Agent's calculations and determinations in relation to the Index shall be binding on all parties in the absence of manifest error. No party (whether the holder of any financial product linked to the Index or otherwise) will be entitled to proceed (and agrees to waive proceedings) against the Index Calculation Agent in connection with any such calculations or determinations or any failure to make any calculations or determinations in relation to the Index. For so long as the Index Calculation Agent calculates the Index, calculations and determinations by the Index

Calculation Agent in connection with the Index will be made in reliance upon information obtained from various sources. The Index Calculation Agent does not accept any liability for loss or damage of any kind arising from the use of such information in any such calculation or determination.

Morgan Stanley Conflicts of Interest

Morgan Stanley may from time to time engage in transactions involving underlying components for its proprietary accounts and/or for accounts of its clients, may act as market-maker in such underlyings and/or may be providing underwriting, banking, advisory or other services to the issuers of such equity shares. Such activities may not be for the benefit of the holders of investments related to the Index and may have a positive or negative effect on the value of the underlyings and consequently on the Index Level. In addition, Morgan Stanley may from time to time act in other capacities, such as the issuer of investments, advisor thereof, index calculation agent, and/or index sponsor. Morgan Stanley may issue derivative instruments in respect of such investments and/or the underlyings and the use of such derivatives may affect the value of the underlyings or the Index.

Morgan Stanley may enter into hedging transactions with respect to the underlying constituents or related instruments on the basis of such information which may affect the value of such components or instruments. In addition, the unwinding of such hedging transactions may affect the value of such components or instruments which may affect the value of the Index. Morgan Stanley may generate gains and/or losses from such hedging activity.

3. Important Information

Prior to making an investment decision with respect to any instrument with a return linked to the performance of the Index, prospective investors should understand fully all of the information set out in this document, including the Important Information below.

Index Calculation Agent

Morgan Stanley is the Index Calculation Agent and also the Index Sponsor.

The Index Calculation Agent is responsible for compiling and calculating the Index pursuant to and on the basis of these Rules. The Index Calculation Agent is appointed as index calculation agent by the Index Sponsor, the appointment of which may be terminated at any time by the Index Sponsor. The Index Sponsor retains the discretion to appoint an alternative index calculation agent, which may be an affiliate of Morgan Stanley, in lieu of the Index Calculation Agent. The Index Calculation Agent expressly disclaims all liability for any inaccuracy in calculations and the publication of the Index, the information used for making adjustments to the Index and the actual adjustments.

The Index Calculation Agent makes no representation (implied or otherwise) as to the performance of the Index.

Index Sponsor

Morgan Stanley as Index Sponsor retains the final discretion as to the manner in which the Index is calculated and constructed. Furthermore, Morgan Stanley, as Index Sponsor, is the final authority on the Index and the interpretation and application of these Rules.

The Index Sponsor may supplement, amend (in whole or in part), revise or withdraw these Rules at any time. Such a supplement, amendment, revision or withdrawal may lead to a change in the way the Index is calculated or constructed and may affect the Index in other ways, including adversely affecting the performance. Without prejudice to the generality to the foregoing, the Index Sponsor may determine that a change to the Rules is appropriate in order to update the Rules following a Disruption Event or to address an error, ambiguity or omission. The Rules may change without prior notice. All of the above may affect the value of the Index as well as having a detrimental effect on the Index's future performance.

Notwithstanding anything to the contrary herein, the Index Sponsor shall have the right, in its sole discretion, to cease compiling, calculating and publishing values of the Index if at any time the Index Sponsor determines that the Index no longer meets or will not be capable of meeting the criteria established by the Index Sponsor or the Index Sponsor otherwise determines that the Index shall no longer be calculated.

Proprietary Information

The Morgan Stanley Protected Volatility Premium Index (ER)sm is the exclusive property of Morgan Stanley. Morgan Stanley and the Morgan Stanley Protected Volatility Premium Index (ER)sm are service marks of Morgan Stanley and no person or entity should refer to any of the service marks without the consent of Morgan Stanley or otherwise use any of the information herein for any purpose other than in relation to an investment linked to the Morgan Stanley Protected Volatility Premium Index (ER)sm.

The Morgan Stanley Protected Volatility Premium Index (ER)sm is in no way sponsored or endorsed by Standard & Poor's and Standard & Poor's shall have no liability with respect thereto.