

MORGAN STANLEY
Form 424B2
February 19, 2019

CALCULATION OF REGISTRATION FEE

<i>Title of Each Class of Securities Offered</i>	<i>Maximum Aggregate Offering Price</i>	<i>Amount of Registration Fee</i>
Securities with Leveraged Downside due 2021	\$3,000,000	\$363.60

February 2019

Pricing Supplement No. 1,607

Registration Statement No. 333-221595; 333-221595-01

Dated February 14, 2019

Filed pursuant to Rule 424(b)(2)

Morgan Stanley Finance LLC

INTEREST RATE STRUCTURED PRODUCTS

Securities with Leveraged Downside Principal Exposure due February 22, 2021

Based on the Spread Between the 30-Year U.S. Dollar ICE Swap Rate and the 2-Year U.S. Dollar ICE Swap Rate

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

The Securities with Leveraged Downside Principal Exposure, which we refer to as the securities, offer the opportunity to earn a return based on the spread between the 30-Year U.S. Dollar ICE Swap Rate (30CMS) and the 2-Year U.S. Dollar ICE Swap Rate (2CMS) (the “reference rate spread”) on the valuation date. Unlike ordinary debt securities, the securities do not pay interest and do not guarantee the repayment of any principal at maturity. Instead, at maturity, you will receive for each security that you hold an amount in cash that will vary depending on the final reference rate spread, as compared to the reference rate spread strike of 0.000%. A final reference rate spread that is greater than the reference rate spread strike means that longer-term interest rates (as measured by 30CMS) are greater than shorter-term interest rates (as measured by 2CMS) on the valuation date, while a final reference rate spread that is less

than the reference rate spread strike means that the opposite is true (sometimes referred to as an “inverted yield curve”).

If the final reference rate spread is greater than or equal to the reference rate spread strike, you will receive at maturity the stated principal amount plus a positive return equal to 1% for every 0.01% that the final reference rate spread is greater than the reference rate spread strike, subject to the maximum payment at maturity. However, if the reference rate spread is less than the reference rate spread strike on the valuation date (in other words, if 2CMS is greater than 30CMS on such date), you will lose **3%** for every **0.01%** that the final reference rate spread is less than the reference rate spread strike and, accordingly, you will receive a payment at maturity that is less than the stated principal amount of the securities and that could be zero. For example, assuming a final reference rate spread of -0.100%, due to the downside leverage feature, you would lose 30% of your initial investment in the securities. **As a result, a final reference rate spread that is less than the reference rate spread strike by even a very small number of basis points will result in a significant loss on the securities (a basis point is one one-hundredth of a percentage-point). If the final reference rate spread is approximately -0.3333% or lower, you will lose your entire initial investment in the securities.** For example, if, on the valuation date, 30CMS were equal to 2.000% and 2CMS were equal to 2.334%, you would lose your entire initial investment in the securities.

The securities are for investors who are willing to risk losing some or all of their principal **on a leveraged basis** if the reference rate spread is less than the reference rate spread strike on the valuation date and risk losing their entire principal if the final reference rate spread is approximately -0.3333% or lower and who are willing to forgo current income and upside above the maximum payment at maturity in exchange for the possibility of receiving a positive return on the securities if the final reference rate spread is greater than the reference rate spread strike. **There is no minimum payment at maturity on the securities. Accordingly, you could lose your entire initial investment in the securities.** The securities are notes issued as part of MSFL’s Series A Global Medium-Term Notes program.

The terms of the securities differ from those of ordinary debt securities. Ordinary floating rate debt securities linked to an interest rate typically provide for the return of principal at maturity, subject to our credit risk, and the payment of interest that depends on the interest rate to which such securities are linked. Any decline in such interest rate would potentially affect the interest payable on such securities, but would not adversely affect the payment at maturity.

All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These securities are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

FINAL TERMS

Issuer:	Morgan Stanley Finance LLC (“MSFL”)
Guarantor:	Morgan Stanley
Aggregate principal amount:	\$3,000,000. May be increased prior to the original issue date but we are not required to do so.
Issue price:	\$1,000 per security
Stated principal amount:	\$1,000 per security
Pricing date:	February 14, 2019
Original issue date:	February 20, 2019 (3 business days after the pricing date)
Maturity date:	February 22, 2021
Interest:	None
Reference rate spread:	On any day, the 30-Year U.S. Dollar ICE Swap Rate (30CMS) minus the 2-Year U.S. Dollar ICE Swap Rate (2CMS). Please see “Additional Provisions—Reference Rate Spread” below.
Payment at maturity:	· If the final reference rate spread is <i>greater than or equal to</i> the reference rate spread strike:

$\$1,000 + (\$1,000 \times \text{reference rate spread performance factor} \times 100)$

In no event will the payment at maturity exceed the maximum payment at maturity.

· If the final reference rate spread is less than the reference rate spread strike:

$\$1,000 + (\$1,000 \times \text{reference rate spread performance factor} \times 300)$

In no event will the payment at maturity be less than \$0 per security.

You will lose 3% for every 0.01% that the final reference rate spread is less than the reference rate spread strike. As a result, a final reference rate spread that is less than the reference rate spread strike by even a very small number of basis points will result in a significant loss on the securities. If the final reference rate spread is approximately -0.3333% or lower, you will lose your entire initial investment in the securities.

Maximum payment at maturity:

\$1,200 per security (120% of the stated principal amount)

Minimum payment at maturity:

\$0 per security. You could lose your entire initial investment in the securities.

final reference rate spread – reference rate spread strike.

Because the reference rate spread strike is 0.000%, the

Reference rate spread performance factor:

reference rate spread performance factor is equal to the final reference rate spread.

Reference rate spread strike:

0.000%

Final reference rate spread:

The reference rate spread on the valuation date.

Valuation date:

February 17, 2021

Specified currency:

U.S. dollars

CUSIP / ISIN:

61766YDR9 / US61766YDR99

Book-entry or certificated security:

Book-entry

Business day:

New York

Agent:

Morgan Stanley & Co. LLC (“MS & Co.”), an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley. See “Supplemental Information Concerning Plan of Distribution; Conflicts of Interest.”

Calculation agent:

Morgan Stanley Capital Services LLC

Trustee:

The Bank of New York Mellon

Estimated value on the pricing date:

\$945.00 per security. The estimated value on any subsequent pricing date may be lower than this estimate, but will in no case be less than \$920.00 per security. See “Investment Summary” on page 2.

Commissions and issue price:

Price to public Agent’s commissions⁽¹⁾ Proceeds to issuer⁽²⁾

Per security

\$1,000 \$35.50 \$964.50

Total	\$3,000,000	\$106,500	\$2,893,500
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Morgan Stanley or one of our affiliates will pay varying discounts and commissions to dealers, including Morgan Stanley Wealth Management (an affiliate of the agent) and their financial advisors, of \$35.50 per security (1) depending on market conditions. See “Supplemental Information Concerning Plan of Distribution; Conflicts of Interest.” For additional information, see “Plan of Distribution (Conflicts of Interest)” in the accompanying prospectus supplement.

(2) See “Use of Proceeds and Hedging” on page 14.

The securities involve risks not associated with an investment in ordinary debt securities. See “Risk Factors” beginning on page 10.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this document or the accompanying prospectus supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

You should read this document together with the related prospectus supplement and prospectus, each of which can be accessed via the hyperlinks below.

Prospectus Supplement dated November 16, 2017 Prospectus dated November 16, 2017

References to “we,” “us” and “our” refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

The securities are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

Morgan Stanley Finance LLC

Securities with Leveraged Downside Principal Exposure due February 22, 2021

Based on the Spread Between the 30-Year U.S. Dollar ICE Swap Rate and the 2-Year U.S. Dollar ICE Swap Rate

Principal at Risk Securities

Investment Summary

Securities with Leveraged Downside Principal Exposure

Principal at Risk Securities

The Securities with Leveraged Downside Principal Exposure, which we refer to as the securities, offer the opportunity to earn a return based on the spread between the 30-Year U.S. Dollar ICE Swap Rate (30CMS) and the 2-Year U.S. Dollar ICE Swap Rate (2CMS) (the “reference rate spread”) on the valuation date. Unlike ordinary debt securities, the securities do not pay interest and do not guarantee the repayment of any principal at maturity. Instead, at maturity, you will receive for each security that you hold an amount in cash that will vary depending on the final reference rate spread, as compared to the reference rate spread strike of 0.000%. A final reference rate spread that is greater than the reference rate spread strike means that longer-term interest rates (as measured by 30CMS) are greater than shorter-term interest rates (as measured by 2CMS) on the valuation date, while a final reference rate spread that is less than the reference rate spread strike means that the opposite is true (sometimes referred to as an “inverted yield curve”).

If the final reference rate spread is greater than or equal to the reference rate spread strike, you will receive at maturity the stated principal amount plus a positive return equal to 1% for every 0.01% that the final reference rate spread is greater than the reference rate spread strike, subject to the maximum payment at maturity. However, if the reference rate spread is less than the reference rate spread strike on the valuation date (in other words, if 2CMS is greater than 30CMS on such date), you will lose 3% for every 0.01% that the final reference rate spread is less than the reference rate spread strike and, accordingly, you will receive a payment at maturity that is less than the stated principal amount of the securities and that could be zero. **As a result, a final reference rate spread that is less than the reference rate spread strike by even a very small number of basis points will result in a significant loss on the securities. If the final reference rate spread is approximately -0.3333% or lower, you will lose your entire initial investment in the securities. There is no minimum payment at maturity on the securities. Accordingly, you could lose your entire initial investment in the securities.**

Maturity:	Approximately 2 years
Maximum payment at maturity:	\$1,200 per security (120% of the stated principal amount)
Minimum payment at maturity:	\$0 per security. You could lose your entire initial investment in the securities.
Interest:	None

The stated principal amount and issue price of each security is \$1,000. This price includes costs associated with issuing, selling, structuring and hedging the securities, which are borne by you, and, consequently, the estimated value of the securities on the pricing date is less than the issue price. We estimate that the value of each security on the pricing date is \$945.00. The estimated value on any subsequent pricing date may be lower than this estimate, but will in no case be less than \$920.00 per security.

What goes into the estimated value on the pricing date?

In valuing the securities on the pricing date, we take into account that the securities comprise both a debt component and a performance-based component linked to the reference rate spread. The estimated value of the securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the reference rate spread, instruments based on the reference rate spread, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the securities?

In determining the economic terms of the securities, including the reference rate spread strike and the maximum payment at maturity, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the securities would be more favorable to you.

What is the relationship between the estimated value on the pricing date and the secondary market price of the securities?

The price at which MS & Co. purchases the securities in the secondary market, absent changes in market conditions, including those related to interest rates and the reference rate spread, may vary from, and be lower than, the estimated value on the pricing date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type, the costs of unwinding the related hedging transactions and other factors.

MS & Co. may, but is not obligated to, make a market in the securities and, if it once chooses to make a market, may cease doing so at any time.

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Morgan Stanley Finance LLC

Securities with Leveraged Downside Principal Exposure due February 22, 2021

Based on the Spread Between the 30-Year U.S. Dollar ICE Swap Rate and the 2-Year U.S. Dollar ICE Swap Rate

Principal at Risk Securities

Key Investment Rationale

The securities do not pay interest and do not guarantee the repayment of any principal at maturity. Instead, the securities offer a payment at maturity equal to stated principal amount plus a positive return equal to 1% for every 0.01% that the final reference rate spread is greater than the reference rate spread strike, subject to the maximum payment at maturity. However, if the reference rate spread is less than the reference rate spread strike on the valuation date (in other words, if 2CMS is greater than 30CMS on such date), you will lose 3% for every 0.01% that the final reference rate spread is less than the reference rate spread strike and, accordingly, you will receive a payment at maturity that is less than the stated principal amount of the securities and that could be zero. **There is no minimum payment at maturity on the securities. Accordingly, you could lose your entire initial investment in the securities.**

Upside
Scenario

*If the final reference rate spread is **greater than or equal to the reference rate spread strike**, the payment at maturity for each security will be equal to \$1,000 *plus* the *product* of (i) \$1,000, (ii) the reference rate spread performance factor and (iii) 100, subject to the maximum payment at maturity.*
*If the final reference rate spread is **less than the reference rate spread strike**, which means that 2CMS is *greater than* 30CMS on the valuation date, you will lose **3%** for every **0.01%** that the final reference rate spread is less than the reference rate spread strike. **As a result, a final reference rate spread that is less than the reference rate spread strike by even a very small number of basis points will result in a significant loss on the securities.***

Leveraged
Downside
Scenario

The payment at maturity for each security will be equal to \$1,000 *plus* the *product* of (i) \$1,000, (ii) the reference rate spread performance factor and (iii) 300. Under these circumstances, the payment at maturity will be less than the stated principal amount of the securities and could be zero. **Investors will lose some, and may lose all, of their principal in this scenario.**

Morgan Stanley Finance LLC

Securities with Leveraged Downside Principal Exposure due February 22, 2021

Based on the Spread Between the 30-Year U.S. Dollar ICE Swap Rate and the 2-Year U.S. Dollar ICE Swap Rate

Principal at Risk Securities

Additional Provisions

Reference Rate Spread

What are the 30-Year and 2-Year U.S. Dollar ICE Swap Rates?

30CMS and 2CMS mean “CMS rate” as defined in the accompanying prospectus in the section called “Description of Debt Securities—Floating Rate Debt Securities” and “—Base Rates” with an index maturity of 30 years or 2 years, as applicable, and an index currency of U.S. dollars. 30CMS is one of the market-accepted indicators of longer-term interest rates. 2CMS is one of the market-accepted indicators of shorter-term interest rates.

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Securities with Leveraged Downside Principal Exposure due February 22, 2021

Based on the Spread Between the 30-Year U.S. Dollar ICE Swap Rate and the 2-Year U.S. Dollar ICE Swap Rate

Principal at Risk Securities

How the Securities with Leveraged Downside Principal Exposure Work

Payoff Diagram

The payoff diagram below illustrates the payout on the securities at maturity for a range of hypothetical levels of the final reference rate spread. The diagram is based on the following terms:

Stated principal amount: \$1,000 per security

Maximum payment at maturity: \$1,200 per security (120% of the stated principal amount)

Minimum payment at maturity: \$0 per security. You could lose your entire initial investment in the securities.

As indicated in the payoff diagram below, a final reference rate spread that is less than the reference rate spread strike by even a very small number of basis points will result in a significant loss on the securities. For example, assuming a final reference rate spread of -0.100%, due to the downside leverage feature, you would lose 30% of your initial investment in the securities. **There is no minimum payment at maturity on the securities. Accordingly, you could lose your entire initial investment in the securities.**

Securities with Leveraged Downside Principal Exposure Payoff Diagram

How it works

Upside Scenario. If the final reference rate spread is *greater than or equal to* the reference rate spread strike, the investor would receive the \$1,000 stated principal amount *plus* the *product* of (i) \$1,000, (ii) the reference rate spread performance factor *and* (iii) 100, subject to the maximum payment at maturity. Under the terms of the securities, an investor will realize the maximum payment at maturity of \$1,200 per security (120% of the stated principal amount) at a final reference rate spread of 0.2000%.

- o Assuming a final reference rate spread of 0.1000%, the payment at maturity would be \$1,100 per security.
- o Assuming a final reference rate spread of 0.2500%, the payment at maturity would be \$1,200 per security, the maximum payment at maturity.

Leveraged Downside Scenario. If the final reference rate spread is *less than* the reference rate spread strike, the payment at maturity would be less than the stated principal amount of \$1,000 and you will lose **3%** for every **0.01%** that the final reference rate spread is less than the reference rate spread strike. **As a result, a final reference rate spread that is less than the reference rate spread strike by even a very small number of basis points will result in a significant loss on the securities. Investors will lose a significant portion, and may lose all, of their principal in this scenario.**

For example, assuming a final reference rate spread of -0.250%, investors will lose 75% of their principal and the total payment on the securities would be \$250 per security, representing only 25% of the stated principal amount.

Morgan Stanley Finance LLC

Securities with Leveraged Downside Principal Exposure due February 22, 2021

Based on the Spread Between the 30-Year U.S. Dollar ICE Swap Rate and the 2-Year U.S. Dollar ICE Swap Rate

Principal at Risk Securities

If the final reference rate spread is approximately -0.3333% or lower, investors will lose their entire initial investment in the securities. For example, if, on the valuation date, 30CMS were equal to 2.000% and 2CMS were equal to 2.334%, investors would lose their entire initial investment in the securities.

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Securities with Leveraged Downside Principal Exposure due February 22, 2021

Based on the Spread Between the 30-Year U.S. Dollar ICE Swap Rate and the 2-Year U.S. Dollar ICE Swap Rate

Principal at Risk Securities

What Is the Return on the Securities at Maturity, Assuming a Range of Different Hypothetical Levels of the Reference Rate Spread on the Valuation Date?

The following table and examples illustrate the hypothetical payment at maturity and hypothetical return at maturity on the securities. The return on the securities is the number, expressed as a percentage, that results from comparing the payment at maturity per \$1,000 stated principal amount to \$1,000. A final reference rate spread that is less than the reference rate spread strike by even a very small number of basis points will result in a significant loss on the securities. The returns set forth below are for illustrative purposes only and may not be the actual return applicable to a purchaser of the securities. The numbers appearing in the following table and examples have been rounded for ease of analysis.

Final reference rate spread	Reference rate spread performance factor	Payment at maturity	Return on the securities
0.4500%	0.45%	\$1,200	20.00%
0.4000%	0.40%	\$1,200	20.00%
0.3500%	0.35%	\$1,200	20.00%
0.3000%	0.30%	\$1,200	20.00%
0.2500%	0.25%	\$1,200	20.00%
0.2000%	0.20%	\$1,200	20.00%
0.1500%	0.15%	\$1,150	15.00%
0.1000%	0.10%	\$1,100	10.00%
0.0500%	0.05%	\$1,050	5.00%
0.0400%	0.04%	\$1,040	4.00%
0.0300%	0.03%	\$1,030	3.00%
0.0200%	0.02%	\$1,020	2.00%
0.0100%	0.01%	\$1,010	1.00%
0.0000%	0.00%	\$1,000	0.00%
-0.0100%	-0.01%	\$970	-3.00%
-0.0200%	-0.02%	\$940	-6.00%
-0.0300%	-0.03%	\$910	-9.00%
-0.0400%	-0.04%	\$880	-12.00%
-0.0500%	-0.05%	\$850	-15.00%
-0.1000%	-0.10%	\$700	-30.00%
-0.1500%	-0.15%	\$550	-45.00%
-0.2000%	-0.20%	\$400	-60.00%
-0.2500%	-0.25%	\$250	-75.00%
-0.3000%	-0.30%	\$100	-90.00%

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-0.3100%	-0.31%	\$70	-93.00%
-0.3200%	-0.32%	\$40	-96.00%
-0.3300%	-0.33%	\$10	-99.00%
-0.3333%	-0.3333%	\$0	-100.00%
-0.3400%	-0.34%	\$0	-100.00%
-0.3500%	-0.35%	\$0	-100.00%
-0.3600%	-0.36%	\$0	-100.00%
-0.3700%	-0.37%	\$0	-100.00%

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Morgan Stanley Finance LLC

Securities with Leveraged Downside Principal Exposure due February 22, 2021

Based on the Spread Between the 30-Year U.S. Dollar ICE Swap Rate and the 2-Year U.S. Dollar ICE Swap Rate

Principal at Risk Securities

Hypothetical Examples of Amount Payable at Maturity

The following examples illustrate how the payment at maturity and return on the securities in different hypothetical scenarios are calculated.

Example 1: The final reference rate spread is 0.400%, which is greater than the reference rate spread strike.

Because the final reference rate spread is greater than the reference rate spread strike, the payment at maturity is equal to \$1,200 per security, calculated as follows:

The *lesser of* (i) $\$1,000 + (\$1,000 \times \text{reference rate spread performance factor} \times 100)$ and (ii) the maximum payment at maturity

The *lesser of* (i) $\$1,000 + (\$1,000 \times 0.40\% \times 100)$ and (ii) \$1,200

The *lesser of* (i) \$1,400 and (ii) \$1,200

\$1,200

Although the final reference rate spread is greater than the reference rate spread strike by 0.40% in this example, the return is limited to the maximum payment at maturity of \$1,200 (120% of the stated principal amount). The return on the securities is 20%.

Example 2: The final reference rate spread is 0.150%, which is greater than the reference rate spread strike.

Because the final reference rate spread is greater than the reference rate spread strike, the payment at maturity is equal to \$1,150 per security, calculated as follows:

The *lesser of* (i) $\$1,000 + (\$1,000 \times \text{reference rate spread performance factor} \times 100)$ and (ii) the maximum payment at maturity

The *lesser of* (i) $\$1,000 + (\$1,000 \times 0.15\% \times 100)$ and (ii) \$1,200

The *lesser of* (i) \$1,150 and (ii) \$1,200

\$1,150

Because the final reference rate spread is not greater than the reference rate spread strike by more than 0.20% in this example, you receive a positive return equal to 1% for every 0.01% that the final reference rate spread is greater than the reference rate spread strike, and the payment at maturity is \$1,150. The return on the securities is 15%.

Example 3: The final reference rate spread is -0.100%, which is less than the reference rate spread strike.

Because the final reference rate spread is less than the reference rate spread strike, the payment at maturity is equal to \$700 per security, calculated as follows:

$\$1,000 + (\$1,000 \times \text{reference rate spread performance factor} \times 300)$, subject to the minimum payment at maturity

$= \$1,000 + (\$1,000 \times -0.10\% \times 300)$, subject to the minimum payment at maturity

$= \$1,000 + (-\$300)$, subject to the minimum payment at maturity

= \$700

Although the final reference rate spread is less than the reference rate spread strike by only 0.10%, due to the downside leverage feature, you lose 30% of your principal. The return on the securities is -30%

Example 4: The final reference rate spread is -0.370%, which is less than the reference rate spread strike.

Because the final reference rate spread is less than the reference rate spread strike, the payment at maturity is equal to \$0 per \$1,000 security, calculated as follows:

$\$1,000 + (\$1,000 \times \text{reference rate spread performance factor} \times 300)$, subject to the minimum payment at maturity

$= \$1,000 + (\$1,000 \times -0.37\% \times 300)$, subject to the minimum payment at maturity

$= \$1,000 + (-1,110)$, subject to the minimum payment at maturity

$= -\$110$, subject to the minimum payment at maturity

= \$0

Although the final reference rate spread is less than the reference rate spread strike by only 0.37%, due to the downside leverage feature, you lose your entire initial investment in the securities. The return on the securities is -100%.

Morgan Stanley Finance LLC

Securities with Leveraged Downside Principal Exposure due February 22, 2021

Based on the Spread Between the 30-Year U.S. Dollar ICE Swap Rate and the 2-Year U.S. Dollar ICE Swap Rate

Principal at Risk Securities

Historical Information

The following graph sets forth the historical percentage levels of the reference rate spread for the period from January 1, 2004 to February 14, 2019. The historical levels of the reference rate spread should not be taken as an indication of its future performance. The graph below does not reflect the return the securities would have had during the periods presented, including because it does not take into account the downside leverage feature. We obtained the information in the graph below from Bloomberg Financial Markets, without independent verification.

When reviewing the historical performance of the reference rate spread in the below graph, it is important to understand that **a final reference rate spread that is less than the reference rate spread strike by even a very small number of basis points will result in a significant loss on the securities. There is no minimum payment at maturity on the securities. Accordingly, you could lose your entire initial investment in the securities.**

*** The red solid line in the graph indicates the reference rate spread strike of 0.000%.**

We cannot give you any assurance that the final reference rate spread will be greater than the reference rate spread strike on the valuation date. The final reference rate spread may be less than the reference rate spread strike on the valuation date even if the level of the reference rate spread is generally positive and, moreover, the level of the reference rate spread has in the past been, and may in the future be, negative.

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Securities with Leveraged Downside Principal Exposure due February 22, 2021

Based on the Spread Between the 30-Year U.S. Dollar ICE Swap Rate and the 2-Year U.S. Dollar ICE Swap Rate

Principal at Risk Securities

Risk Factors

An investment in the securities entails significant risks not associated with similar investments in a conventional debt security, including, but not limited to, fluctuations in 30CMS, 2CMS and the reference rate spread, and other events that are difficult to predict and beyond our control. This section describes the most significant risks relating to the securities. For a complete list of risk factors, please see the accompanying prospectus supplement and prospectus. Investors should consult their financial and legal advisers as to the risks entailed by an investment in the securities and the suitability of the securities in light of their particular circumstances.

The terms of the securities differ from those of ordinary debt securities in that the securities do not pay interest and do not guarantee the repayment of any principal at maturity. The terms of the securities differ from those of ordinary debt securities. Ordinary floating rate debt securities linked to an interest rate typically provide for the return of principal at maturity, subject to our credit risk, and the payment of interest that depends on the interest rate to which such securities are linked. Any decline in such interest rate would potentially affect the interest payable on such securities, but would not adversely affect the payment at maturity. Unlike ordinary debt securities, the securities do not pay interest and do not guarantee the repayment of any principal at maturity. Instead, at maturity, you will receive for each security that you hold an amount in cash that will vary depending on the final reference rate spread, as compared to the reference rate spread strike of 0.000%. If the final reference rate spread is greater than or equal to the reference rate spread strike, you will receive at maturity the stated principal amount plus a positive return equal to 1% for every 0.01% that the final reference rate spread is greater than the reference rate spread strike, § subject to the maximum payment at maturity. However, if the reference rate spread is less than the reference rate spread strike on the valuation date (in other words, if 2CMS is greater than 30CMS on such date), you will lose **3%** for every **0.01%** that the final reference rate spread is less than the reference rate spread strike and, accordingly, you will receive a payment at maturity that is less than the stated principal amount of the securities and that could be zero. For example, assuming a final reference rate spread of -0.100%, due to the downside leverage feature, you would lose 30% of your initial investment in the securities. **As a result, a final reference rate spread that is less than the reference rate spread strike by even a very small number of basis points will result in a significant loss on the securities. If the final reference rate spread is approximately -0.3333% or lower, you will lose your entire initial investment in the securities.** For example, if, on the valuation date, 30CMS were equal to 2.000% and 2CMS were equal to 2.334%, you would lose your entire initial investment in the securities. **There is no minimum payment at maturity on the securities. Accordingly, you could lose your entire initial investment in the securities.**

§ Because of the downside leverage feature, the securities have increased sensitivity to the reference rate spread. Because of the downside leverage feature, the extent to which the final reference rate spread is less than the

reference rate spread strike will have a greater impact on the payout on your securities than on the payout on securities without such leverage, and every basis point for which the final reference rate spread is less than the reference rate spread strike will translate into a 3% loss of the stated principal amount. Under these circumstances, you would suffer losses on your investment in the securities substantially greater than you would if your securities did not contain a leverage component.

The potential return on the securities is limited by the maximum payment at maturity. Any positive return on your securities will not exceed the maximum payment at maturity of \$1,200 per security, or 20% of the stated principal amount, regardless of the amount by which the final reference rate spread is greater than the reference rate spread strike, which may be significant. Under the terms of the securities, you will realize the maximum payment at maturity of \$1,200 per security (120% of the stated principal amount) at a final reference rate spread of 0.2000%. Any higher final reference rate spread will not further increase the return on the securities.

The historical performance of the reference rate spread is not an indication of future performance. The historical performance of the reference rate spread should not be taken as an indication of future performance during the term of the securities (including on the valuation date). Changes in the reference rate spread will affect the trading price of the securities, but it is impossible to predict whether such levels will rise or fall. There can be no assurance that the final reference rate spread will not be less than the reference rate spread strike, in which case you will lose money on your investment.

Investors are subject to our credit risk, and any actual or anticipated changes to our credit ratings or credit spreads may adversely affect the market value of the securities. Investors are dependent on our ability to pay all amounts due on the securities at maturity and therefore investors are subject to our credit risk and to changes in the market's view of our creditworthiness. The securities are not guaranteed by any other entity. If we default on our obligations under the

Morgan Stanley Finance LLC

Securities with Leveraged Downside Principal Exposure due February 22, 2021

Based on the Spread Between the 30-Year U.S. Dollar ICE Swap Rate and the 2-Year U.S. Dollar ICE Swap Rate

Principal at Risk Securities

securities, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the securities prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the value of the securities.

As a finance subsidiary, MSFL has no independent operations and will have no independent assets. As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *§ pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be treated *§ pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

The reference rate spread will be affected by a number of factors. A number of factors can affect the reference rate spread, including but not limited to:

§ changes in, or perceptions about, 30CMS and 2CMS;

§ changes in, or perceptions about, the future reference rate spread;

§ general economic conditions: the economic, financial, political, regulatory and judicial events that affect financial markets generally will affect the reference rate spread;

§ prevailing interest rates: 30CMS, 2CMS and the reference rate spread are subject to daily fluctuations depending on prevailing interest rates in the market generally; and

§ policies of the Federal Reserve Board regarding interest rates.

These and other factors may have a negative impact on the payment at maturity and on the value of the securities prior to maturity.

The reference rate spread may be volatile. The reference rate spread is subject to volatility due to a variety of factors affecting interest rates generally, including but not limited to:

§ sentiment regarding the U.S. and global economies;

§ expectations regarding the level of price inflation;

§ sentiment regarding credit quality in the U.S. and global credit markets;

§ central bank policy regarding interest rates; and

§ performance of capital markets.

The reference rate spread may be volatile, and a final reference rate spread that is less than the reference rate spread strike by even a very small number of basis points will result in a significant loss on the securities. Accordingly, volatility of the reference rate spread may adversely affect your return on the securities.

The price at which the securities may be sold prior to maturity will depend on a number of factors and may be substantially less than the amount for which they were originally purchased. Some of these factors include, but are not limited to: (i) actual or anticipated changes in 30CMS, 2CMS and the reference rate spread, (ii) volatility of 30CMS, 2CMS and the reference rate spread, (iii) changes in interest and yield rates, (iv) any actual or anticipated changes in our credit ratings or credit spreads and (v) time remaining to maturity. Depending on the actual or anticipated level of the reference rate spread, the market value of the securities may decrease, and you may receive substantially less than 100% of the issue price if you are able to sell your securities prior to maturity.

The amount payable on the securities is not linked to the reference rate spread at any time other than the valuation date. The final reference rate spread will be the reference rate spread on the valuation date. Even if the reference rate spread is greater than the reference rate spread strike prior to the valuation date but then is less than the reference rate spread strike by the valuation date, the payment at maturity may be significantly less than it would have been had the payment at maturity been linked to the reference rate spread prior to such change. Although the actual reference rate spread on the stated maturity date or at other times during the term of the securities may be greater than the final reference rate spread, the payment at maturity will be based solely on the reference rate spread on the valuation date.

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Principal at Risk Securities

The rate we are willing to pay for securities of this type, maturity and issuance size is likely to be lower than the rate implied by our secondary market credit spreads and advantageous to us. Both the lower rate and the inclusion of costs associated with issuing, selling, structuring and hedging the securities in the original issue price reduce the economic terms of the securities, cause the estimated value of the securities to be less than the original issue price and will adversely affect secondary market prices. Assuming no change in market conditions § or any other relevant factors, the prices, if any, at which dealers, including MS & Co., are willing to purchase the securities in secondary market transactions will likely be significantly lower than the original issue price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the original issue price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-o