MORGAN STANLEY
Form 424B2
December 28, 2018

***CALCULATION OF REGISTRATION FEE***

| *Title of Each Class of Securities Offered* | *Maximum Aggregate Offering Price* | *Amount of Registration Fee* |
|---|---|---|
| Allocation Securities due 2024 | $1,370,000 | $166.04 |

Pricing Supplement No. 1,313
Registration Statement Nos. 333-221595; 333-221595-01
Dated December 27, 2018
Filed Pursuant to Rule 424(b)(2)

Morgan Stanley Finance LLC $1,370,000 Allocation Securities

Linked to a Basket of Indices Due December 29, 2023

**Fully and Unconditionally Guaranteed by Morgan Stanley**

Principal at Risk Securities

**Investment Description**
These Allocation Securities (the “Securities”) are unsubordinated and unsecured debt securities issued by Morgan Stanley Finance LLC (“MSFL”) and are fully and unconditionally guaranteed by Morgan Stanley. The return on the Securities is linked to a weighted basket of indices (the “Basket”) consisting of the S&P 500® Index, the MSCI EAFE® Index and the MSCI Emerging Markets Index℠, each of which we refer to as an “Underlying” and together as the “Underlyings.” On the Final Valuation Date, different weightings will be allocated to the Underlyings based on their respective performances, as follows: 74% for the Underlying with the highest return (whether positive or negative), 26% for the Underlying with the second-highest return (whether positive or negative), and 0% for the Underlying with the lowest return. At maturity, if the Allocated Basket Return is positive, MSFL will pay the Principal Amount plus a return equal to the Allocated Basket Return. However, if the Allocated Basket Return is negative, you will be fully exposed to the negative Allocated Basket Return and MSFL will repay less than the full Principal Amount, if anything, resulting in a loss of principal that is proportionate to the negative Allocated Basket Return. These long-dated Securities are designed for investors who seek an opportunity to earn a return based on the allocated performance of the Underlyings, as set forth herein, and who are willing to risk their principal and forgo current income in exchange for the exposure to the allocated performance of the Underlyings. **Investing in the Securities involves significant risks. MSFL will not pay any interest on the Securities, and you may lose some or all of your Principal Amount. Any payment on the Securities is subject to our creditworthiness. If we default on our payment obligations, you may not receive any amounts owed to you under the terms of the Securities, and you could lose your entire investment.**

**Features Key Dates**

q **Performance Allocation Feature:** At maturity, different weightings will be allocated to the Underlyings based on their respective performances. MSFL will pay the Principal Amount plus any positive Allocated Basket Return or reduced by any negative Allocated Basket Return.

q **Full Downside Market Exposure to the Allocated Basket Return:** If the Allocated Basket Return is negative, MSFL will repay less than the full Principal Amount at maturity, if anything, resulting in a loss of principal to investors that is proportionate to the negative Allocated Basket Return. Accordingly, you may lose some or all of your Principal Amount. Any payment on the Securities is subject to our creditworthiness.

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| Trade Date | December 27, 2018 |
| Settlement Date | December 31, 2018 |
| Final Valuation Date* | December 27, 2023 |
| Maturity Date* | December 29, 2023 |

* Subject to postponement in the event of a Market Disruption Event or for non-Index Business Days. See "Postponement of Final Valuation Date and Maturity Date" under "Additional Terms of the Securities."

**NOTICE TO INVESTORS: THE SECURITIES ARE SIGNIFICANTLY RISKIER THAN CONVENTIONAL DEBT INSTRUMENTS. THE SECURITIES DO NOT GUARANTEE THE REPAYMENT OF THE FULL PRINCIPAL AMOUNT AT MATURITY, AND THE SECURITIES HAVE DOWNSIDE MARKET RISK SIMILAR TO THE UNDERLYINGS, WHICH CAN RESULT IN A LOSS OF SOME OR ALL OF YOUR INVESTMENT AT MATURITY. THIS MARKET RISK IS IN ADDITION TO THE CREDIT RISK INHERENT IN PURCHASING OUR DEBT OBLIGATIONS. YOU SHOULD NOT PURCHASE THE SECURITIES IF YOU DO NOT UNDERSTAND OR ARE NOT COMFORTABLE WITH THE SIGNIFICANT RISKS INVOLVED IN INVESTING IN THE SECURITIES. THE SECURITIES WILL NOT BE LISTED ON ANY SECURITIES EXCHANGE.**

**YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED UNDER ''KEY RISKS'' BEGINNING ON PAGE 5 OF THIS PRICING SUPPLEMENT IN CONNECTION WITH YOUR PURCHASE OF THE SECURITIES. EVENTS RELATING TO ANY OF THOSE RISKS, OR OTHER RISKS AND UNCERTAINTIES, COULD ADVERSELY AFFECT THE MARKET VALUE OF, AND THE RETURN ON, YOUR SECURITIES**

Security Offering

We are offering Allocation Securities Linked to a Basket of Indices. The Securities are offered at a minimum investment of $1,000 in denominations of $10 and integral multiples thereof.

| Underlying | Initial Level | Basket Weightings | CUSIP | ISIN |
|---|---|---|---|---|
| S&P 500® Index (Bloomberg ticker: SPX) | 2,488.83 | 74% for the Underlying with the highest return, 26% for the Underlying with the second-highest return and 0% for the Underlying with the lowest return. | 61768W293 | US61768W2935 |
| MSCI EAFE® Index (Bloomberg ticker: MXEA) | 1,687.56 | | | |
| MSCI Emerging Markets Index℠ (Bloomberg ticker: MXEF) | 952.33 | | | |

**See "Additional Information about Morgan Stanley, MSFL and the Securities" on page 2. The Securities will have the terms set forth in the accompanying prospectus, prospectus supplement and index supplement and this pricing supplement.**

*Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these Securities or passed upon the adequacy or accuracy of this pricing supplement or the accompanying prospectus supplement, index supplement and prospectus. Any representation to the contrary is a criminal offense. 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.*

| | | | |
|---|---|---|---|
| Estimated value on the Trade Date | $9.424 per Security. See "Additional Information about Morgan Stanley, MSFL and the Securities" on page 2. | | |
| | Price to Public | Underwriting Discount(1) | Proceeds to Us(2) |
| Per Security | $10.00 | $0.35 | $9.65 |
| Total | $1,370,000 | $47,950 | $1,322,050 |

We also sold, pursuant to Pricing Supplement No. 1,314, a separate issuance of securities, being sold only to fee-based advisory accounts, with terms substantially similar to, but somewhat different than, those of this issuance.

(1) UBS Financial Services Inc., acting as dealer, will receive from Morgan Stanley & Co. LLC, the agent, a fixed sales commission of $0.35 for each Security it sells. For more information, please see "Supplemental Plan of Distribution; Conflicts of Interest" on page 27 of this pricing supplement.

(2) See "Use of Proceeds and Hedging" on page 26.

The agent for this offering, Morgan Stanley & Co. LLC, is our affiliate and a wholly owned subsidiary of Morgan Stanley. See "Supplemental Plan of Distribution; Conflicts of Interest" on page 27 of this pricing supplement.

Morgan Stanley UBS Financial Services Inc.

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Additional Information about Morgan Stanley, MSFL and the Securities

Morgan Stanley and MSFL have filed a registration statement (including a prospectus, as supplemented by a prospectus supplement and an index supplement) with the SEC for the offering to which this communication relates. In connection with your investment, you should read the prospectus in that registration statement, the prospectus supplement, the index supplement and any other documents relating to this offering that Morgan Stanley and MSFL have filed with the SEC for more complete information about Morgan Stanley, MSFL and this offering. You may get these documents for free by visiting EDGAR on the SEC website at.www.sec.gov. Alternatively, Morgan Stanley, MSFL, any underwriter or any dealer participating in this offering will arrange to send you the prospectus, the prospectus supplement and the index supplement if you so request by calling toll-free 1-(800)-584-6837.

You may access the accompanying prospectus supplement, index supplement and prospectus on the SEC website at.www.sec.gov as follows:

t Prospectus supplement dated November 16, 2017: https://www.sec.gov/Archives/edgar/data/895421/000095010317011241/dp82788_424b2-seriesa.htm

t Index supplement dated November 16, 2017: https://www.sec.gov/Archives/edgar/data/895421/000095010317011283/dp82797_424b2-indexsupp.htm

t Prospectus dated November 16, 2017: https://www.sec.gov/Archives/edgar/data/895421/000095010317011237/dp82798_424b2-base.htm

*References to "MSFL" refer only to MSFL, references to "Morgan Stanley" refer only to Morgan Stanley and references to "we," "our" and "us" refer to MSFL and Morgan Stanley collectively. In this document, the "Securities" refers to the Allocation Securities that are offered hereby. Also, references to the accompanying "prospectus", "prospectus supplement" and "index supplement" mean the prospectus filed by MSFL and Morgan Stanley dated November 16, 2017, the prospectus supplement filed by MSFL and Morgan Stanley dated November 16, 2017 and the index supplement filed by MSFL and Morgan Stanley dated November 16, 2017, respectively.*

You should rely only on the information incorporated by reference or provided in this pricing supplement or the accompanying prospectus supplement, index supplement and prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this pricing supplement or the accompanying prospectus supplement, index supplement and prospectus is accurate as of any date other than the date on the front of this document.

The Issue Price of each Security is $10. 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 Trade

Date is less than $10. We estimate that the value of each Security on the Trade Date is $9.424.

*What goes into the estimated value on the Trade Date?*

In valuing the Securities on the Trade Date, we take into account that the Securities comprise both a debt component and a performance-based component linked to the Underlying. The estimated value of the Securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the Underlyings, instruments based on the Underlyings, 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 Basket Weighting percentages, 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 Trade 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 the Underlyings, may vary from, and be lower than, the estimated value on the Trade 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 and other factors. However, because the costs associated with issuing, selling, structuring and hedging the Securities are not fully deducted upon issuance, for a period of up to 12 months following the Settlement Date, to the extent that MS & Co. may buy or sell the Securities in the secondary market, absent changes in market conditions, including those related to the Underlyings, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. currently intends, 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.

Investor Suitability

| **The Securities may be suitable for you if:** | **The Securities may not be suitable for you if:** |
|---|---|
| t You fully understand the risks inherent in an investment in the Securities, including the risk of loss of your entire initial investment. | t You do not fully understand the risks inherent in an investment in the Securities, including the risk of loss of some or all of your initial investment. |
| t You can tolerate a loss of some or all of your investment and are willing to make an investment that has the same downside market risk as the Underlyings included in the Basket. | t You require an investment designed to provide a full return of principal at maturity. |
| t You understand the characteristics of the Underlyings. | t You cannot tolerate a loss of some or all of your investment and are unwilling to make an investment that has the same downside market risk as the Underlyings included in the Basket. |
| t You believe that the Allocated Basket Return will be positive. | t You do not understand the characteristics of the Underlyings. |
| t You believe that one Underlying will outperform the other Underlyings, but are uncertain as to which Underlying will perform best. Therefore, you prefer an investment that allocates a higher weighting to the Underlying with the best performance | t You believe that the Allocated Basket Return will be negative or that the Allocated Basket return will not be sufficiently positive to provide you with your desired return. |
| t You can tolerate fluctuations in the price of the Securities prior to maturity that may be similar to or exceed the downside fluctuations in the level of the Underlyings. | t You believe that the level of all three Underlyings will decline over the term of the Securities or that none of the three Underlyings will appreciate sufficiently for a positive Allocated Basket Return. |
| t You do not seek current income from your investment and are willing to forgo dividends paid on the Underlyings included in the Basket. | t You cannot tolerate fluctuations in the price of the Securities prior to maturity that may be similar to or exceed the downside fluctuations in the level |

t You are willing to hold the Securities to maturity, as set forth on the cover of this pricing supplement, and accept the risk that there may be little or no secondary market for the Securities.

t You are willing to assume our credit risk for all payments under the Securities, and understand that if we default on our obligations you may not receive any amounts due to you and could lose your entire investment.

of the Underlyings.

t You seek current income from this investment or prefer to receive the dividends paid on the Underlyings included in the Basket.

t You are unable or unwilling to hold the Securities to maturity, as set forth on the cover of this pricing supplement, or you seek an investment for which there will be an active secondary market.

t You are not willing to assume our credit risk for all payments under the Securities.

**The investor suitability considerations identified above are not exhaustive. Whether or not the Securities are a suitable investment for you will depend on your individual circumstances, and you should reach an investment decision only after you and your investment, legal, tax, accounting and other advisors have carefully considered the suitability of an investment in the Securities in light of your particular circumstances. You should also review carefully the sections entitled "Key Risks" beginning on page 5 of this pricing supplement and "Risk Factors" beginning on page 7 of the accompanying prospectus for risks related to an investment in the Securities. For additional information about the Underlyings, see the information set forth under "The S&P 500® Index," "The MSCI EAFE® Index" and "The MSCI Emerging Markets Index℠" beginning on page 16.**

Final Terms

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|---|---|
| Issuer | Morgan Stanley Finance LLC |
| Guarantor: | Morgan Stanley |
| Issue Price (per Security) | $10.00 |
| Principal Amount | $10.00 per Security (subject to a minimum investment of 100 Securities). |
| Term | Approximately 5 years |
| Basket | The Securities are linked to a weighted Basket consisting of the S&P 500® Index, the MSCI EAFE® Index and the MSCI Emerging Markets Index℠, each of which we refer to as an "Underlying"and together as the "Underlyings." |
| | MSFL will pay you a cash Payment at Maturity linked to the performance of the Basket during the term of the Securities, as follows: |
| Payment at Maturity (per Security) | $10 + [$10 × Allocated Basket Return];<br>If the Allocated Basket Return is negative, you will lose 1% of your Principal Amount for every 1% of the negative Allocated Basket Return, resulting in a loss of principal proportionate to the negative Allocated Basket Return. Under these circumstances, you will lose some, and possibly all, of your Principal Amount. |
| Final Valuation Date | December 27, 2023 |
| Maturity Date | December 29, 2023 |
| Underlying Return | For each Underlying, the return of such Underlying is calculated as:<br>$\frac{\text{Final Level – Initial Level}}{\text{Initial Level}}$ |
| Allocated Basket Return | On the Final Valuation Date, the Allocated Basket Return is calculated as:<br>(Best Underlying Return × 74%) + (Second-Best Underlying Return × 26%) + (Worst Underlying Return × 0%) |
| Best Underlying Return | The Underlying Return of the Underlying with the highest Underlying Return (whether positive or negative). |
| Second-Best Underlying Return | The Underlying Return of the Underlying with the second-highest Underlying Return (whether positive or negative). |
| Worst Underlying Return | The Underlying Return of the Underlying with the lowest Underlying Return (whether positive or negative). |

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| Initial Level | In the case of the S&P 500® Index, 2,488.83; in the case of the MSCI EAFE® Index, 1,687.56; and in the case of the MSCI Emerging Markets Index℠, 952.33; each of which is the Closing Level of such Underlying on the Trade Date. |
| Final Level | With respect to each Underlying, the Closing Level of such Underlying on the Final Valuation Date. |
| CUSIP/ISIN | 61768W293 / US61768W2935 |
| Trustee | The Bank of New York Mellon |
| Calculation Agent | Morgan Stanley & Co. LLC ("MS & Co.") |

Investment Timeline

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| **Trade Date** | The Initial Levels are determined. The actual applicable percentages to be used in calculating the Allocated Basket Return are set. |
| | The Final Levels and Allocated Basket Return are determined as of the Final Valuation Date. |
| | At maturity, MSFL will pay you: |
| | $10 + [$10 × Allocated Basket Return] |
| **Maturity Date** | **If the Allocated Basket Return is negative,** MSFL will pay you less than the Principal Amount per Security, if anything, resulting in a loss of principal that is proportionate to the negative Allocated Basket Return. In this scenario, you will lose some, and possibly all, of your Principal Amount. |

Investing in the Securities involves significant risks. You may lose some or all of your PRINCIPAL AMOUNT. Any payment on the Securities is subject to our creditworthiness. If WE were to default on OUR payment obligations, you may not receive any amounts owed to you under the Securities and you could lose your entire investment.

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Key Risks

An investment in the Securities involves significant risks. Some of the risks that apply to the Securities are summarized here, but we urge you to also read the “Risk Factors” section of the accompanying prospectus. You should also consult your investment, legal, tax, accounting and other advisers in connection with your investment in the Securities.

- **Your investment in the Securities may result in a loss of your initial investment.** The terms of the Securities differ from those of ordinary debt securities in that we will not pay you interest on the Securities or guarantee to pay you any of the Principal Amount of the Securities at maturity. Instead, we will pay you at maturity for each $10 Principal Amount of Securities that you hold an amount in cash based upon the allocated performance of the Basket, as measured on the Final Valuation Date. If the Allocated Basket Return is positive, MSFL will repay the Principal Amount at maturity and pay a return equal to the Allocated Basket Return. However, if the Allocated Basket Return is negative, you will be exposed to the full negative Allocated Basket Return and MSFL will pay you an amount that is less than the full Principal Amount at maturity, if anything, resulting in a loss of principal that is proportionate to the negative Allocated Basket Return. **Accordingly, you could lose your entire initial investment.**

- **You may incur a loss on your investment if you sell your Securities prior to maturity.** You should be willing to hold your Securities to maturity. If you are able to sell your Securities prior to maturity in the secondary market, you may have to sell them at a loss relative to your initial investment even if the Underlyings have not decreased from their respective Initial Levels at the time of sale.

- **Changes in the value of one of the Underlyings may offset changes in the value of the others.** Movements in the values of the Underlyings may not correlate with each other. At a time when the value of one Underlying increases in value, the value of the other Underlyings may not increase as much, or may even decline in value. Therefore, in calculating the Allocated Basket Return, increases in the value of one Underlying may be moderated, or wholly offset, by lesser increases or declines in the value of the other Underlyings. Although the best-performing Underlying will be the most heavily weighted Underlying and the worst-performing Underlying will be weighted at zero, the return of the best-performing Underlying may not be positive or may not be large enough to counterbalance the negative Underlying Return from the second-best-performing Underlying. In such a case, the allocation of the weightings of the Underlyings based on their respective performances will not prevent you from losing some or all of your investment. If the Allocated Basket Return is negative, you will receive at maturity an amount that is less than the amount of your original investment in the Securities, and which could be zero.

- **No interest payments.** MSFL will not make any interest payments in respect of the Securities.

- **The Securities 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.** You are dependent on our ability to pay all amounts due on the Securities at maturity and therefore you are subject to our credit risk. If we default on our obligations under the 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 market value of the Securities.

t **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.

t **The amount payable on the Securities is not linked to the levels of the Underlyings at any time other than the Final Valuation Date.** The Allocated Basket Return will be based on the Final Levels of the Underlyings on the Final Valuation Date, subject to postponement for non-Index Business Days and certain Market Disruption Events. Even if some or all of the Underlyings appreciate prior to the Final Valuation Date but then drop by the Final Valuation Date, the Payment at Maturity may be significantly less than it would have been had the Payment at Maturity been linked to the levels of the Underlyings prior to such drop. Although the actual levels of the Underlyings on the stated Maturity Date or at other times during the term of the Securities may be higher than their Final Levels, the Payment at Maturity will be based solely on the Final Levels of the Underlyings on the Final Valuation Date as compared to their Initial Levels.

t **The market price of the Securities may be influenced by many unpredictable factors.** Several factors, many of which are beyond our control, will influence the value of the Securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the Securities in the secondary market, including:

o the value of each of the Underlyings at any time,

o the volatility (frequency and magnitude of changes in price or value) of each of the Underlyings,

o dividend rates on the securities included in each of the Underlyings,

o interest and yield rates in the market,

o geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the Underlyings or stock markets generally and which may affect the Final Levels,

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o the time remaining until the Securities mature, and

o any actual or anticipated changes in our credit ratings or credit spreads.

Some or all of these factors will influence the price that you will receive if you are able to sell your Securities prior to maturity, as the Securities are comprised of both a debt component and a performance-based component linked to the Underlyings, and these are the types of factors that also generally affect the values of debt securities and derivatives linked to the Underlyings. Generally, the longer the time remaining to maturity, the more the market price of the Securities will be affected by the other factors described above. For example, you may have to sell your Securities at a substantial discount from the Principal Amount of $10 per Security if the values of the Underlyings at the time of sale are below, at or moderately above their Initial Levels or if market interest rates rise. You cannot predict the future performance of the Underlyings based on their historical performance. If the Allocated Basket Return is negative, you will receive at maturity an amount that is less than the $10 Principal Amount of each Security (and which could be zero) by an amount proportionate to negative Allocated Basket Return. There can be no assurance that there will be any positive Allocated Basket Return such that you will receive at maturity an amount in excess of the Principal Amount of the Securities, or any amount at all.

t **Investing in the Securities is not equivalent to investing in the Underlyings.** Investing in the Securities is not equivalent to investing in the Underlyings or investing in the component stocks of the Underlyings. Investors in the Securities will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to stocks that constitute the Underlyings.

t **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 Issue Price reduce the economic terms of the Securities, cause the estimated value of the Securities to be less than the 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., may be willing to purchase the Securities in secondary market transactions will likely be significantly lower than the Issue Price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the Issue Price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the Securities in the Issue Price and the lower rate we are willing to pay as issuer make the economic terms of the Securities less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the Securities are not fully deducted upon issuance, for a period of up to 12 months following the Settlement Date, to the extent that MS & Co. may buy or sell the Securities in the secondary market, absent changes in market conditions, including those related to the Underlyings, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

t **The estimated value of the Securities is determined by reference to our pricing and valuation models, which may differ from those of other dealers and is not a maximum or minimum secondary market price.** These pricing and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no market-standard way to value these types of securities, our models may yield a higher estimated value of the Securities than those generated by others, including other dealers in the market, if they attempted to value the Securities. In addition, the estimated value on the Trade Date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your Securities in the secondary market (if any exists) at any time. The value of your Securities at any time after the date of this pricing supplement will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also "The market price of the Securities may be influenced by many unpredictable factors" above.

t **There are risks associated with investments in securities linked to the value of foreign equity (and especially emerging markets) securities.** The MSCI EAFE® Index and the MSCI Emerging Markets Index$^{SM}$, two of the Underlyings, are linked to the value of foreign equity securities. Investments in securities linked to the value of foreign equity securities involve risks associated with the securities markets in those countries, including risks of volatility in those markets, governmental intervention in those markets and cross-shareholdings in companies in certain countries. Also, there is generally less publicly available information about foreign companies than about U.S. companies that are subject to the reporting requirements of the United States Securities and Exchange Commission, and foreign companies are subject to accounting, auditing and financial reporting standards and requirements different from those applicable to U.S. reporting companies. The prices of securities issued in foreign markets may be affected by political, economic, financial and social factors in those countries, or global regions, including changes in government, economic and fiscal policies and currency exchange laws. In addition, the stocks included in the MSCI Emerging Markets Index$^{SM}$ have been issued by companies in various emerging markets countries, which pose further risks in addition to the risks associated with investing in foreign equity markets generally. Countries with emerging markets may have relatively unstable governments, may present the risks of nationalization of businesses, restrictions on foreign ownership and prohibitions on the repatriation of assets, and may have less protection of property rights than more developed countries. The economies of countries with emerging markets may be based on only a few industries, may be highly vulnerable to changes in local or global trade conditions, and may suffer from extreme and volatile debt burdens or inflation rates. Local securities markets may trade a small number of securities and may be unable to respond effectively to increases in trading volume, potentially making prompt liquidation of holdings difficult or impossible at times. Moreover, the economies in such countries may differ favorably or unfavorably from the economy in the United States in such respects as growth of gross national product, rate of inflation, capital reinvestment, resources, self-sufficiency and balance of payment positions.

t **The levels of the MSCI EAFE® Index and the MSCI Emerging Markets Index$^{SM}$ are subject to currency exchange rate risk.** Because the levels of the MSCI EAFE® Index and the MSCI Emerging Markets Index$^{SM}$ are related to the U.S. dollar value of stocks underlying the respective indices, holders of the Securities will be exposed to currency exchange rate risk with respect to the currencies in which the component securities of the MSCI EAFE® Index and the MSCI Emerging Markets Index℠ trade. Exchange rate movements for a particular currency are volatile and are the result of numerous factors specific to that country including the supply of, and the demand for, those currencies, as well as government policy, intervention or actions, but are also influenced significantly from time to time by political or economic developments, and by macroeconomic factors and speculative actions related to each region. Further, currencies of emerging economies are often subject to more frequent and larger central bank interventions than the currencies of developed countries and are also more likely to be affected by drastic changes in monetary or exchange rate policies of the relevant country. The net exposure will depend on the extent to which the currencies of the component countries strengthen or weaken against the U.S. dollar and the relative weight of each currency. If, taking into account such weighting, the dollar strengthens against the currencies of the component securities of the MSCI EAFE® Index or the MSCI Emerging Markets Index℠, the level of the relevant Underlying will be adversely affected and the Payment at Maturity on the Securities may be reduced.

Of particular importance to potential currency exchange risk are:

o existing and expected rates of inflation;

o existing and expected interest rate levels;

o the balance of payments; and

o the extent of governmental surpluses or deficits in the countries represented in the relevant index and the United States.

All of these factors are, in turn, sensitive to the monetary, fiscal and trade policies pursued by the governments of the countries represented in the MSCI EAFE® Index and the MSCI Emerging Markets Index℠, the United States and other countries important to international trade and finance.

t **The Securities will not be listed on any securities exchange and secondary trading may be limited**. The Securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the Securities. MS & Co. currently intends, 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. When it does make a market, it will generally do so for transactions of routine secondary market size at prices based on its estimate of the current value of the Securities, taking into account its bid/offer spread, our credit spreads, market volatility, the notional size of the proposed sale, the cost of unwinding any related hedging positions, the time remaining to maturity and the likelihood that it will be able to resell the Securities. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Securities easily. Since other broker-dealers may not participate significantly in the secondary market for the Securities, the prices at which you may be able to trade your Securities is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the Securities, it is likely that there would be no secondary market for the Securities. Accordingly, you should be willing to hold your Securities to maturity.

**Potential conflict of interest**. As Calculation Agent, MS & Co. has determined the Initial Levels and the Basket Weightings, will determine the Final Levels, the Allocated Basket Return and whether any Market Disruption Event has occurred and will calculate the amount payable at maturity, if any. Moreover, certain determinations made by MS & Co., in its capacity as Calculation Agent, may require it to exercise discretion and make subjective judgments, such as with respect to the occurrence or non-occurrence of Market Disruption Events and the selection of a Successor Index or calculation of a Final Level in the event of a discontinuance of the Underlying or a Market Disruption Event. These potentially subjective determinations may adversely affect the payout to you at maturity, if any. For further information regarding these types of determinations, see "Additional Terms of the Securities—Postponement of Final Valuation Date and Maturity Date," "—Discontinuance of any Underlying; Alteration of Method of Calculation," "—Calculation Agent and Calculations "below. In addition, MS & Co. has determined the estimated value of the Securities on the Trade Date.

**Hedging and trading activity by our subsidiaries could potentially adversely affect the value of the Securities.** One or more of our affiliates and/or third-party dealers have carried out, and will continue to carry out, hedging activities related to the Securities, including trading in the stocks that constitute the Underlyings, in futures or options contracts on the Underlyings or the constituent stocks of the Underlyings, as well as in other instruments related to the Underlyings. As a result, these entities may be unwinding or adjusting hedge positions during the term of the Securities, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the Final Valuation Date approaches. MS & Co. and some of our other affiliates also trade the stocks that constitute the Underlyings, in futures or options contracts on the constituent stocks of the Underlyings, as well as in other instruments related to the Underlyings, on a regular basis as part of their general broker-dealer and other businesses. Any of these hedging or trading activities on or prior to the Trade Date could have increased the Initial Levels of the Underlyings, and, therefore, could have increased the levels at or above which the Underlyings must close on the Final Valuation Date so that investors do not suffer a loss on their initial investment in the Securities. Additionally, such hedging or trading activities during the term of the Securities, including on the Final Valuation Date, could adversely affect the Closing Levels of the Underlyings on the Final Valuation Date, and, accordingly, the amount of cash payable at maturity, if any.

**Uncertain tax treatment**. Please note that the discussions in this pricing supplement concerning the U.S. federal income tax consequences of an investment in the Securities supersede the discussions contained in the accompanying prospectus supplement.

Subject to the discussion under "What Are the Tax Consequences of the Securities" in this pricing supplement, although there is uncertainty regarding the U.S. federal income tax consequences of an investment in the Securities due to the lack of governing authority, in the opinion of our counsel, Davis Polk & Wardwell LLP ("our counsel"), under current law, and based on current market conditions, each Security should be treated as a single financial contract that is an "open transaction" for U.S. federal income tax purposes.

If the Internal Revenue Service (the "IRS") were successful in asserting an alternative treatment for the Securities, the timing and character of income on the Securities might differ significantly from the tax treatment described herein. For example, under one possible treatment, the IRS could seek to recharacterize the Securities as debt instruments. In that event, U.S. Holders (as defined below) would be required to accrue into income original issue discount on the Securities every year at a "comparable yield" determined at the time of issuance and recognize all income and gain in respect of the Securities as ordinary income. We do not plan to request a ruling from the IRS regarding the tax treatment of the Securities, and the IRS or a court may not agree with the tax treatment described in this pricing supplement.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by Non-U.S. Holders (as defined below) should be subject to withholding tax; and whether these instruments are or should be subject to the "constructive ownership" rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the Securities, possibly with retroactive effect.

**Both U.S. and Non-U.S. Holders should read carefully the discussion under "What Are the Tax Consequences of the Securities" in this pricing supplement and consult their tax advisers regarding all aspects of the U.S. federal tax consequences of an investment in the Securities as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.**

Hypothetical Payments on the Securities

The table and examples below are hypothetical and provided for illustrative purposes only. They do not purport to be representative of every possible scenario concerning positive or negative Allocated Basket Returns. You cannot predict the Allocated Basket Return or the Final Level of any Underlying on the Final Valuation Date. You should not take these examples as an indication or assurance of the expected performance of the Basket. The examples illustrate the Payment at Maturity for a $10.00 Security on a hypothetical offering of the Securities, based on the following terms:*

t Principal amount (per Security): $10.00

t S&P 500® Index Initial Level: 2,500

t MSCI EAFE® Index Initial Level: 1,700

t MSCI Emerging Markets Index℠ Initial Level: 1,000

t Basket Weightings: 74% for the Underlying with the highest Underlying Return, 26% for the Underlying with the second-best Underlying Return and 0% for the Underlying with the lowest Underlying Return.

*The actual Initial Levels are specified on the cover of this pricing supplement.

| **Allocated Basket Return** | **Payment at Maturity (Per Security)** | **Total Return on the Securities** |
|---|---|---|
| I00.00% | $20.00 | I00.00% |
| 90.00% | $19.00 | 90.00% |
| 80.00% | $18.00 | 80.00% |
| O0.00% | $17.00 | O0.00% |
| N0.00% | $16.00 | N0.00% |
| M0.00% | $15.00 | M0.00% |
| L0.00% | $14.00 | L0.00% |
| K0.00% | $13.00 | K0.00% |
| J0.00% | $12.00 | J0.00% |
| I0.00% | $11.00 | I0.00% |
| M.00% | $10.50 | M.00% |
| H.00% | $10.00 | H.00% |
| -5.00% | $9.50 | -5.00% |
| -10.00% | $9.00 | -10.00% |
| -20.00% | $8.00 | -20.00% |
| -30.00% | $7.00 | -30.00% |
| -40.00% | $6.00 | -40.00% |

| | | |
|---|---|---|
| -50.00% | $5.00 | -50.00% |
| -60.00% | $4.00 | -60.00% |
| -70.00% | $3.00 | -70.00% |
| -80.00% | $2.00 | -80.00% |
| -90.00% | $1.00 | -90.00% |
| -100.00% | $0.00 | -100.00% |

**Example 1**

t S&P 500® Index Final Level: 3,750
(Underlying Return: 50%) (Basket Weighting: 74%)

t MSCI EAFE® Index Final Level: 2,125
(Underlying Return: 25%) (Basket Weighting: 26%)

t MSCI Emerging Markets Index℠ Final Level: 800
(Underlying Return: -20%) (Basket Weighting: 0%)

t Payment at Maturity: $14.35
(Return on $10.00 investment: 43.50%)

**Example 2**

t S&P 500® Index Final Level: 1,000
(Underlying Return: -60%) (Basket Weighting: 0%)

t MSCI EAFE® Index Final Level: 1,785
(Underlying Return: 5%) (Basket Weighting: 74%)

t MSCI Emerging Markets Index℠ Final Level: 500
(Underlying Return: -50%) (Basket Weighting: 26%)

t Payment at Maturity: $9.07
(Return on $10.00 investment: -9.30%)

**Example 3**

t S&P 500® Index Final Level: 1,250
(Underlying Return: -50%) (Basket Weighting: 74%)

t MSCI EAFE® Index Final Level: 680
(Underlying Return: -60%) (Basket Weighting: 26%)

t MSCI Emerging Markets Index℠ Final Level: 200
(Underlying Return: -80%) (Basket Weighting: 0%)

t Payment at Maturity: $4.74
(Return on $10.00 investment: -52.60%)

In Example 1, the return of the best-performing Underlying (S&P 500® Index) is 50% and the return of the second-best-performing Underlying (MSCI EAFE® Index) is 25%.

Allocated Basket Return = [(50% x 74%) + (25% x 26%) + (-20% x 0%)] = 43.50%

As a result, we pay $10.00 + ($10.00 × 43.50%), or $14.35, at maturity.

In Example 2, the return of the best-performing Underlying (MSCI EAFE® Index) is 5% and the return of the second-best-performing Underlying (MSCI Emerging Markets Index℠) is -50%.

Allocated Basket Return = [(5% x 74%) + (-50% x 26%) + (-60% x 0%)] = -9.30%

As a result, we pay $10.00 + ($10.00 × -9.30%), or $9.07, at maturity.

**If the Best Underlying Return is not sufficiently positive to offset the decline in the Second-Best Underlying Return, you will lose some of your initial investment.**

In Example 3, the return of the best-performing Underlying (S&P 500® Index) is -50% and the return of the second-best-performing Underlying (MSCI EAFE® Index) is -60%.

Allocated Basket Return = [(-50% x 74%) + (-60% x 26%) + (-80% x 0%)] = -52.60%