

**MORGAN STANLEY**

**BOARD OF DIRECTORS**

**CORPORATE GOVERNANCE POLICIES**

**Adopted October 20, 1995  
(As Amended January 19, 2011)**

**1. Board Membership Criteria.**

The Board seeks members who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated and be selected based upon contributions they can make to the Board and management and their ability to represent the interests of shareholders. The Board will also take into account diversity of a candidate's perspectives, background and other demographics.

**2. Selection of New Directors.**

The Nominating and Governance Committee has, as one of its responsibilities, the recommendation of director candidates to the full Board after receiving input from all directors, including the Chairman of the Board (the "Chairman") and the Chief Executive Officer.

**3. Formal Evaluations of the Chief Executive Officer.**

The Board should establish subjective and objective performance criteria at the beginning of each year for use in formal evaluations of the Chief Executive Officer. The Compensation, Management Development and Succession Committee conducts the evaluation of the Chief Executive Officer in the context of its review of the Company's performance in meeting its priorities for purposes of awarding compensation. The Compensation, Management Development and Succession Committee chair reports to the Board on the evaluation in a Non-Management Director Session.

**4. Evaluation of Board and Committee Performance.**

The Nominating and Governance Committee has the responsibility to oversee the annual evaluation of the performance of the Board and each of the Audit, Compensation, Management Development and Succession, Nominating and Governance, and Risk Committees. Comments regarding individual directors that arise during these evaluations will be directed for their consideration to the Chairman and to the Nominating and Governance Committee chair.

**5. Mix of Inside and Outside Directors.**

The Board should have a majority of independent directors.

**6. Retirement Policy.**

The Board believes that directors should not stand for election following their seventy-second birthday.

**7. Directors Changing Their Present Job Responsibility.**

The Board expects a director who changes his or her present job responsibility to so advise, and to offer to tender his or her resignation to, the Chairman. The Chairman should refer the matter to the Nominating and Governance Committee for review with the Chairman's recommendation. The Committee should evaluate the facts and circumstances and recommend to the Board whether to seek and accept the director's resignation.

**8. Executive Sessions of Directors.**

"Executive Sessions" are sessions of the Board that only include directors. "Non-Management Director Sessions" are sessions of the Board that include only non-management directors. "Independent Director Sessions" are sessions that include only independent directors.

Non-management directors may meet in Non-Management Director Sessions or Executive Sessions at the discretion of the non-management directors. Such sessions are not required except on the occasion of the annual evaluation of the Chief Executive Officer. If any non-management directors are not independent, then the independent directors shall schedule an Independent Director Session at least once per year. The Lead Director has the authority to call, and shall lead, Non-Management Director Sessions and Independent Director Sessions. The Lead Director may retain independent legal, accounting or other advisors in connection with these sessions, and the Company shall provide appropriate funding.

**9. Former Chairman Status on Board.**

The Board expects the Chairman to resign upon retirement. There may be circumstances where the Board's policy to accept the resignation would not apply, including to accommodate the transition for the new Chairman or new Chief Executive Officer.

The Board believes that officers of the Company other than the Chairman who are also directors should resign immediately from the Board when they retire from or leave active Company employment or change positions within the Company.

**10. Board Committees: Audit, Compensation, Management Development and Succession, Nominating and Governance, and Risk Committees.**

The Board appoints the (i) Audit, (ii) Compensation, Management Development and Succession, and (iii) Nominating and Governance Committees, each of which shall consist solely of independent directors, as well as the Risk Committee, which shall consist of a majority of independent directors. Each of these Committees shall have its own written charter setting forth, among other things, its purpose and responsibilities. The Board also may establish and maintain additional committees to facilitate discharging its responsibilities. Before establishing any additional committee, the Board considers whether the membership of the committee should be limited solely to independent directors.

**11. Rotation of Committee Assignments.**

The Board generally favors the periodic rotation of Committee assignments and Committee chair positions, but also recognizes that at times it may not be in the best interest of the Company to change a Committee assignment or chair position, such as when a director has special knowledge or experience. It is expected that Committee chairs will serve approximately 4-6 years on average in order to facilitate rotation of Committee chairs while preserving experienced leadership.

**12. Board Committee Meetings.**

The Chairman should regularly consult with Committee chairs to obtain their insights and to optimize Committee performance. Committee meetings shall include any participants the Committee deems appropriate and shall be of sufficient duration and scheduled at such times as the Committee deems appropriate to discharge properly its responsibilities. The Committee chairs, in consultation with the Chairman, Chief Executive Officer, Chief Financial Officer, Chief Legal Officer and Chief Risk Officer, as applicable, should establish the frequency and length of Committee meetings.

**13. Development of Committee Agendas and Meeting Schedules.**

The Committee chairs, in consultation with the Chairman, should establish the Committee agendas and schedules for Committee meetings. Each standing Committee should meet as provided for in its respective charter during the year and, as necessary, receive reports from Company personnel on developments affecting the Committee's work.

**14. Selection of Agenda Items and Meeting Schedules for Board Meetings.**

The Chairman, in consultation with directors, should establish the agendas and schedules for Board meetings. The Lead Director shall approve Board meeting agendas and the schedule of Board meetings and may request inclusion of additional agenda items.

**15. Distribution of Materials for Board Meetings.**

The Board believes it is critical for directors to have materials on topics to be discussed sufficiently in advance of the meeting date and for directors to be kept abreast of developments between Board meetings. The Company regularly informs directors of Company and competitive developments and currently distributes, approximately a week in advance, written materials for use at regularly scheduled Board meetings.

**16. Attendance of Non-Directors at Board Meetings.**

The Board believes that attendance of key executive officers augments the meeting process. The Company's President, Chief Risk Officer, Chief Financial Officer and Chief Legal Officer regularly attend all scheduled Board meetings, at the invitation of the Board. The Chief Executive Officer encourages these persons to respond to questions posed by directors relating to

their areas of expertise. Such persons do not attend Executive Sessions, Non-Management Director Sessions or Independent Director Sessions, either of the Board or any Committee thereof, unless requested.

The Board also believes that the heads of the Company's operating units and other officers can assist the Board with its deliberations and provide critical insights and analysis, particularly when the Board hears presentations on the business plan for the upcoming year. Attendance of such officers allows the most knowledgeable and accountable executives to communicate directly with the Board. It also provides the Board direct access to individuals critical to the Company's succession planning.

**17. Board Access to Senior Management and Employees.**

Directors have complete and open access to senior members of management and other employees of the Company. The Company's practice is to have the heads of the business units present their annual plan to the Board for review and approval. The Chief Executive Officer, in consultation with the Chairman, invites key employees to attend Board sessions at which the Chief Executive Officer believes they can meaningfully contribute to Board discussion.

**18. Board Compensation.**

The Nominating and Governance Committee recommends director compensation and benefits to the full Board. In discharging this duty, the Nominating and Governance Committee shall be guided by three goals: compensation should fairly pay directors for work required in a company of Morgan Stanley's size and scope; compensation should align directors' interests with the long-term interests of shareholders; and the structure of the compensation should be easy for shareholders to understand. The Board believes that total compensation should include a significant equity component because it believes that this more closely aligns the long-term interests of directors with those of shareholders and provides a continuing incentive for directors to foster the Company's success.

**19. Optimum Board Size.**

The Board's optimum size is 10 to 15.

**20. Lead Director.**

The Board believes that it is in the best interest of the Company for the independent directors to appoint an independent director to serve as the Lead Director. The Lead Director shall preside at all meetings of the Board at which the Chairman is not present, and shall have the authority to call, and will lead, Non-Management Director Sessions and Independent Director Sessions. The Lead Director shall help facilitate communication among the Chairman, the Chief Executive Officer and the independent directors, including serving as liaison between the Chairman and independent directors. The Lead Director shall advise the Chairman of the Board's informational needs, shall approve the types and forms of information sent to the Board, shall approve Board meeting agendas and the schedule of Board meetings and may request

inclusion of additional agenda items. The Lead Director will be available, if requested by major shareholders, for consultation and direct communication.

## **21. Definition of “Independent” Directors.**

The board has established the following guidelines to assist it in determining whether or not directors qualify as “independent” pursuant to the guidelines and requirements set forth in the New York Stock Exchange’s Corporate Governance Rules. In each case, the Board will broadly consider all relevant facts and circumstances and shall apply the following standards (in accordance with the guidance, and subject to the exceptions, provided by the New York Stock Exchange in its Commentary to its Corporate Governance Rules):

### **1. Employment and commercial relationships affecting independence.**

**A. Current Relationships.** A director will not be independent if: (i) the director is a current partner or current employee of Morgan Stanley’s internal or external auditor; (ii) an immediate family member of the director is a current partner of Morgan Stanley’s internal or external auditor; (iii) an immediate family member of the director (a) is a current employee of Morgan Stanley’s internal or external auditor and (b) personally works on Morgan Stanley’s audit; (iv) the director is a current employee, or an immediate family member of the director is a current executive officer, of an entity that has made payments to, or received payments from, Morgan Stanley for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company’s consolidated gross revenues; or (v) the director’s spouse, parent, sibling or child is currently employed by Morgan Stanley.

**B. Relationships within Preceding Three Years.** A director will not be independent if, within the preceding three years: (i) the director is or was an employee of Morgan Stanley; (ii) an immediate family member of the director is or was an executive officer of Morgan Stanley; (iii) the director or an immediate family member of the director was (a) partner or employee of Morgan Stanley’s internal or external auditor and (b) personally worked on Morgan Stanley’s audit within that time; (iv) the director or an immediate family member of the director received more than \$120,000 in direct compensation in any twelve-month period from Morgan Stanley, other than (a) director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service) and (b) compensation paid to an immediate family member of the director who is an employee (other than an executive officer) of Morgan Stanley; or (v) a present Morgan Stanley executive officer is or was on the compensation committee of the board of directors of a company that concurrently employed the Morgan Stanley director or an immediate family member of the director as an executive officer.

### **2. Relationships not deemed material for purposes of director independence.**

In addition to the provisions of Section 1 above, each of which must be fully satisfied with respect to each independent director, the board must affirmatively determine that the director has no material relationship with Morgan Stanley. To assist the board in this

determination, it has adopted the following categorical standards of relationships that are not considered material for purposes of determining a director's independence. Any determination of independence for a director that does not meet these categorical standards will be based upon all relevant facts and circumstances and the board shall disclose the basis for such determination in the Company's proxy statement.

- A. Equity Ownership.** A relationship arising solely from a director's ownership of an equity or limited partnership interest in a party that engages in a transaction with Morgan Stanley, so long as such director's ownership interest does not exceed 5% of the total equity or partnership interests in that other party.
- B. Other Directorships.** A relationship arising solely from a director's position as (i) director or advisory director (or similar position) of another company or for-profit corporation or organization that engages in a transaction with Morgan Stanley or (ii) director or trustee (or similar position) of a tax exempt organization that engages in a transaction with Morgan Stanley (other than a charitable contribution to that organization by Morgan Stanley).
- C. Ordinary Course Business.** A relationship arising solely from transactions, including financial services transactions such as underwriting, banking, lending or trading in securities, commodities or derivatives, or from other transactions for products or services, between Morgan Stanley and a company of which a director is an executive officer, employee or owner of 5% or more of the equity of that company, if such transactions are made in the ordinary course of business and on terms and conditions and under circumstances (including, if applicable, credit or underwriting standards) that are substantially similar to those prevailing at the time for comparable transactions, products or services for or with unaffiliated third parties.
- D. Indebtedness.** A relationship arising solely from a director's status as an executive officer, employee or owner of 5% or more of the equity of a company to which Morgan Stanley is indebted at the end of Morgan Stanley's preceding fiscal year, so long as the aggregate amount of the indebtedness of Morgan Stanley to such company is not in excess of 2% of Morgan Stanley's total consolidated assets at the end of Morgan Stanley's preceding fiscal year.
- E. Charitable Contributions.** A relationship arising solely from a director's status as an officer, employee, director or trustee of a tax exempt organization, and the discretionary charitable contributions by Morgan Stanley (directly or through the Morgan Stanley Foundation or any similar organization established by Morgan Stanley) to the organization are less than the greater of \$100,000 or 1% of the organization's consolidated gross revenues during the organization's preceding fiscal year (matching of employee charitable contributions are not included in Morgan Stanley's contributions for this purpose).
- F. Products and Services.** A relationship arising solely from a director utilizing products or services (*e.g.*, brokerage services, investment products, margin loans, investment

management services, mortgages, credit cards or debit cards) of Morgan Stanley in the ordinary course of business and on substantially the same terms as those prevailing at the time for comparable products or services provided to unaffiliated third parties.

**G. Professional, Social and Religious Organizations and Educational Institutions.** A relationship arising solely from a director's membership in the same professional, social, fraternal or religious association or organization, or attendance at the same educational institution, as an executive officer or director.

**H. Family Members.** Any relationship or transaction between an immediate family member of a director and Morgan Stanley shall not be deemed a material relationship or transaction that would cause the director not to be independent if the standards in this Section 2 would permit the relationship or transaction to occur between the director and Morgan Stanley.

**22. Extending Invitation to New Director.**

The Chairman or the Nominating and Governance Committee chair should extend invitations to new directors.

**23. Term Limits.**

The Board does not favor term limits for directors, but believes that it is important to monitor individual director performance.

**24. Management Development and Succession Planning.**

The Compensation, Management Development and Succession Committee oversees plans for management development and succession.

Senior Company executives serving on the Management Committee should evaluate, nominate and compile a succession plan for their areas of responsibility that should be reviewed with the Chief Executive Officer. Each plan should include policies regarding succession in the event of an emergency. Each of the Chairman and Chief Executive Officer should provide input on each succession plan and discuss the plans with the Compensation, Management Development and Succession Committee. The Chief Executive Officer reviews with the Compensation, Management Development and Succession Committee succession planning for his or her successor at least annually. The Compensation, Management Development and Succession Committee periodically reviews with the Board succession plans for the Chief Executive Officer and the areas of responsibility for senior executives as determined by the Compensation, Management Development and Succession Committee. Succession planning should include policies and principles for Chief Executive Officer selection and performance review, as well as policies regarding succession in the event of an emergency or the retirement of the Chief Executive Officer.



**25. Board Interaction with Institutional Investors, Peers, Customers, etc.**

The Board believes that under ordinary circumstances, management speaks for the Company and the Chairman speaks for the Board. Directors may, from time to time, meet with or communicate with various constituencies that are involved with the Company. It is expected that directors would do this with the knowledge of management and, in most instances, at the request of management. The Lead Director should be available, if requested by major shareholders, for consultation and direct communication.

**26. Cumulative Voting.**

The Board strongly supports the “one share/one vote” concept and opposes cumulative voting. It opposes the ability of a single investor or group of investors to band together to achieve a goal, such as the election of a director, which is not supported by a majority of the Company’s shareholders.

**27. Director Equity Ownership.**

Directors shall hold an equity interest in the Company within sixty days after their election to the Board. When non-management directors are first elected to the Board, and when they are reelected, they receive an equity award of stock units, 50% payable in shares of Morgan Stanley Common Stock after the director’s retirement from the Board, and 50% payable in shares of Morgan Stanley Common Stock on the anniversary of grant. Non-management directors are also able to defer Board compensation (including cash retainers) pursuant to a plan in which they may elect to receive stock units. These opportunities and incentives help align Non-management directors’ interests with shareholders’ interests.

**28. Repricing of Stock Options; “Reload” Options.**

The Board opposes repricing of incentive based options by a reduction in the option’s exercise price. The Board favors equitable adjustment of an option’s exercise price in connection with a reclassification of the Company’s stock; a change in the Company’s capitalization; a stock split; a restructuring, merger, or combination of the Company; or other similar events in connection with which it is customary to adjust the exercise price of an option and/or the number and kind of shares subject thereto. Effective December 13, 2005, the Board opposes the future grant of a stock option “reload” feature pursuant to which, upon tendering of shares of common stock to pay the exercise price of an underlying option, or having shares of common stock withheld to pay taxes due upon the exercise of an option, the optionee receives a new option to acquire the number of shares of common stock tendered or withheld.

**29. Consulting Agreements with Directors.**

The Board believes that the Company should not enter into paid consulting arrangements with Non-management directors.

**30. Service on Multiple Boards.**

Directors shall not serve on the board of more than six (6) public companies, including Morgan Stanley. A director who is invited to join the Board of Directors of another company should advise the Chairman (or the Chief Executive Officer, in the case of the Chairman) before accepting a seat on such Board.

**31. Orientation for New Directors; Continuing Education for Directors.**

The Company shall provide an orientation program for new directors. Orientation shall include personal briefing by senior management on the Company's strategic plans, its financial statements and its key policies and practices. The Company shall make available to continuing directors the opportunity to attend educational sessions on subjects that would assist them in discharging their duties. The Company will reimburse directors for reasonable costs incurred attending these sessions.

**32. Director Access to Independent Advisors.**

The Board, the Lead Director and its Committees shall have the right at any time to retain independent outside financial, legal or other advisors.

**33. Director Responsibilities.**

Directors are expected to exercise their business judgment to act in good faith, on an informed basis and in what they reasonably believe to be the best interest of the Company and its shareholders. Directors are expected to attend the meetings of the Board and the committees on which they serve and to review in advance materials distributed before the meeting.

The Board believes that director attendance at shareholder meetings is appropriate and can assist directors in carrying out their duties. When directors attend shareholder meetings, they are able to hear directly shareholder concerns regarding the Company. The Board expects that directors will attend annual shareholder meetings.

**34. IPO Allocations.**

Directors and their immediate family members shall not be eligible to receive allocations of initial public offerings underwritten by the Company.

**35. Review of Resignations by Certain Incumbent Directors.**

The Board expects that an incumbent director who fails to receive a majority of the votes cast in an election that is not a Contested Election (as defined in the Company's Bylaws) and who tenders his or her resignation pursuant to the Company's Bylaws shall not participate in any proceedings by the Board or any committee thereof regarding whether to accept or reject such director's resignation, or whether to take other action with respect to such director.