

**MORGAN STANLEY**

**BOARD OF DIRECTORS**

**CORPORATE GOVERNANCE POLICIES**

**Adopted October 20, 1995**

**Amended October 3, 1997, March 20, 2001, December 11, 2001, December 10, 2002,  
February 13, 2003, December 9, 2003, September 21, 2004, December 14, 2004,  
June 21, 2005, December 13, 2005, April 4, 2006, June 23, 2006, December 12, 2006,  
January 22, 2007 and December 11, 2007**

## **Introduction**

These Corporate Governance Policies were originally adopted on October 20, 1995 by the Board of Directors of Dean Witter, Discover & Co., the predecessor by merger of Morgan Stanley (the “Company”), after an extensive study of corporate governance issues.

Following the merger of Dean Witter, Discover & Co. and Morgan Stanley Group Inc. in May 1997, the Nominating and Directors Committee of the Board of Directors of the merged entity met and deliberated proposed changes in the corporate governance policies appropriate in light of the merger and corporate governance developments since October 1995. The full Board of Directors adopted the new Corporate Governance Policies on October 3, 1997.

Since October 3, 1997 the Board of Directors has amended, and may further amend, the Policies from time to time in light of corporate governance developments.

**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.

**3. Formal Evaluations of Chairman.**

The Board should establish subjective and objective performance criteria at the beginning of each year for use in formal evaluations of the Chairman. The Compensation, Management Development and Succession Committee conducts the evaluation of the Chairman 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-Employee Director Session.

**4. Assessing Board Performance.**

The Nominating and Governance Committee has the responsibility to assess overall Board performance. The performance of the Board and the Nominating and Governance, Audit and Compensation, Management Development and Succession Committees shall be evaluated each year. Comments regarding individual directors that arise during these evaluations will be directed for their consideration to the Chairman and to the Chairman of the Nominating and Governance Committee.

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

The Board should have a significant 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. The Board expects directors to consult with the Chairman (or the Chairman of the Nominating and Governance Committee) on special circumstances.

**8. Executive Sessions of Directors.**

Executive Sessions are those sessions that only include elected directors. Non-Employee Director Sessions are those sessions that include only non-employee directors. Independent Director Sessions are sessions that include only independent directors.

Non-employee directors may meet in Non-Employee Director or Committee Sessions at the discretion of the non-employee directors. Such sessions are not required except on the occasion of the annual evaluation of the Chairman. If any non-employee 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-Employee Director 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 where the current Chairman cedes the title of Chief Executive Officer to another individual.

The Board believes that officers 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. In any event, they should resign from the Board at age 65.

**10. Separate Positions of Chairman and Chief Executive Officer.**

The Company's Bylaws require that the Chairman and Chief Executive Officer be the same person.

**11. Board Committees: Independent Audit, Compensation, Management Development and Succession, and Nominating and Governance Committees.**

The Board maintains Audit, Compensation, Management Development and Succession, and Nominating and Governance Committees, which shall consist solely of independent directors. The Board also may maintain additional committees (*e.g.*, Preferred Stock Financing Committee) 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.

**12. 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.

**13. 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 Financial Officer and Chief Legal Officer, should establish the frequency and length of Committee meetings.

**14. Development of Committee Agenda.**

The Committee chairs, working with the Chairman, should establish Committee agendas for the year. All standing Committees should meet regularly during the year and receive reports from Company personnel on developments affecting the Committee's work.

**15. Selection of Agenda Items and Meeting Schedule for Board Meetings.**

The Chairman, in consultation with members of the Board, should establish the agendas and schedules for Board meetings. The Lead Director shall advise the Chairman regarding Board meeting agendas and as to the appropriate schedule of Board meetings and may request inclusion of additional agenda items.

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

The Board believes it is critical for members to have materials on topics to be discussed sufficiently in advance of meeting date and for Board members to be kept abreast of developments between Board meetings. The Company regularly informs Board members of Company and competitive developments and currently distributes, a week in advance, written materials for use at Board meetings. The Lead Director shall advise the Chairman of the Board's informational needs.

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

The Board believes that attendance of key executive officers augments the meeting process. The Company's Chief Financial Officer and Chief Legal Officer regularly attend all scheduled Board meetings. The Chairman encourages these persons to respond to questions

posed by Board members relating to their areas of expertise. Such persons do not attend Executive Sessions, Non-Employee Director Sessions or Independent Director Sessions, either of the Board or any Committee thereof, unless requested.

The Board also believes that Presidents 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.

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

Board members have complete and open access to senior members of management and other employees of the Company. The Company's practice is to have the business unit Presidents present their annual plan to the Board for review and approval. The Chairman invites key employees to attend Board sessions at which the Chairman believes they can meaningfully contribute to Board discussion.

**19. Board Compensation.**

The Nominating and Governance Committee recommends director compensation and benefits to the full Board. In discharging this duty, the 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.

**20. Optimum Board Size.**

The Board's optimum size is 10 to 15.

**21. Lead Director.**

The Board believes that it is in the best interest of the Company for the Independent Directors to appoint a 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-Employee Director Sessions and Independent Director Sessions. The Lead Director shall help facilitate communication between the Chairman and the Independent Directors. The Lead Director shall advise the Chairman of the Board's informational needs, shall advise the Chairman regarding Board meeting agendas and as to the appropriate 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.

**22. Definition of “Independent” Directors.**

The board has established these 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 is (a) a current employee of Morgan Stanley’s internal or external auditor and (b) participates in the internal or external auditor’s audit, assurance or tax compliance (but not tax planning) practice; (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 (but no longer is) a (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 \$100,000 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, and as permitted by the New York Stock Exchange’s Corporate Governance Rules, the board 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 financial services transactions, including but not limited to 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 aggregate annual charitable receipts during the organization's preceding fiscal year (automatic 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.

**23. Extending Invitation to New Board Member.**

The Chairman of the Board or the Chairman of the Nominating and Governance Committee should extend the invitation.

**24. Term Limits.**

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

**25. 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 Chairman. Each plan should include policies regarding succession in the event of an emergency. The Chairman should provide input on each succession plan and discuss the plans with the Compensation, Management Development and Succession Committee. The Chairman reviews with the Compensation, Management Development and Succession Committee succession planning for his successor at least annually. The Compensation, Management Development and Succession Committee periodically reviews with the Board succession plans for the Chairman and the areas of responsibility for senior executives serving on the Management Committee. Succession planning should include policies and principles for Chairman and CEO selection and performance review, as well as policies regarding succession in the event of an emergency or the retirement of the Chairman and CEO.

**26. 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. Individual Board members may, from time to

time, meet with or communicate with various constituencies that are involved with the Company. It is expected that Board members 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.

**27. 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.

**28. Director Stock Ownership.**

Directors shall become stockholders of the Company within sixty days after their election to the Board. When non-employee directors are first elected to the Board, and when they are reelected, they receive equal amounts of stock units, payable in shares of Morgan Stanley Common Stock after the director’s retirement from the Board, and Morgan Stanley Common Stock, payable immediately. Non-employee directors are also able to defer Board compensation (including cash retainers and Common Stock) pursuant to a plan in which they may elect to receive stock units. These opportunities and incentives help align non-employee directors’ interests with shareholders’ interests.

**29. 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.

**30. Consulting Agreements with Directors.**

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

**31. 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 before accepting a seat on such Board.

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

The Chief Legal Officer and Chief Financial Officer shall be responsible for providing 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 Chief Legal Officer and Chief Financial Officer 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.

**33. Director Access to Independent Advisors.**

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

**34. 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.

**35. IPO Allocations.**

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

**36. 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.