Testimony of John J. Mack
Chairman and Chief Executive Officer, Morgan Stanley
before the
United States House of Representatives
Committee on Financial Services
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Mr. Chairman, Ranking Member Bachus, Members of the Committee. My name is John Mack, and I'm the Chairman and CEO of Morgan Stanley. I appreciate the opportunity to speak with you today about our role in the TARP program and how we're using capital to help address the credit crunch squeezing the American economy. I'll also discuss some of the changes we're making at Morgan Stanley as well as broader reforms we would urge to restore confidence in our industry and the markets.

The events of the past months have shaken the foundation of our global financial system. And, they've made clear the need for profound change to that system. At Morgan Stanley, we've dramatically brought down leverage, increased transparency, reduced our level of risk and made changes to how we pay people.

We've maintained a high level of capital throughout this crisis. Before the TARP investment, our Tier-1 capital ratio – a key measure of regulatory capital – was approximately 15%, one of the highest in the industry. We also delivered positive results for our shareholders in 2008.

But we didn't do everything right. Far from it. And make no mistake: as the head of this firm, I take responsibility for our performance.

I believe that both our Firm and our industry have far to go to regain the trust of taxpayers, investors and public officials. As a recipient of an investment from the U.S. government, we recognize our serious responsibilities to the American people. It's our goal and our desire to repay the taxpayers in full as soon as possible.

Morgan Stanley's business – in contrast to some of our peers – has always been focused primarily on institutional and corporate clients. And our business model is less about lending than about helping companies raise debt and equity in the capital markets.

Between October and December, we increased the total debt raised for clients as lead manager nearly four-fold. Indeed, during the fourth quarter, we helped clients raise \$56 billion in debt to invest in their businesses, including leading American companies like Pepsi and Time Warner Cable. We also helped clients raise \$40 billion in equity to fund their businesses, including a major capital raise for GE. And, we made \$10.6 billion in new commercial loans. In our much smaller retail business, Morgan Stanley made \$650 million in new commitments to lend to consumers during the last three months of 2008.

I've told you how we're putting TARP capital to work. And, we also are filing monthly reports with Treasury detailing the use of our capital. But I should also tell you what we haven't done with the TARP funds. We have NOT used it to pay compensation – nor did we use it to pay any dividends or lobbying costs.

I know the American people are outraged about some compensation practices on Wall Street. I can understand why. I couldn't agree more that compensation should be closely tied to performance. At Morgan Stanley, the most senior members of the firm, including myself, didn't receive any year-end bonus in 2008. I didn't receive a bonus in 2007 either. And, I've never received a cash bonus as CEO of Morgan Stanley. The only year-end compensation I've ever received was paid in Morgan Stanley equity – so my interests are aligned with shareholders. We also were the first U.S. bank to institute a "clawback" provision that goes beyond TARP requirements. It allows us to reclaim pay from anyone who engages in detrimental conduct or causes a significant financial loss to our Firm. And, we're tying future compensation more closely to multi-year performance.

We have much work to do in our industry - and across the markets. Real problems remain that are preventing economic recovery. We need to find ways to increase lending and restore consumer and market confidence. Perhaps most importantly, we need to enact reforms to address the more fundamental issues laid bare by the recent turmoil:

- First, we need fundamentally improved systemic regulation. Our fragmented regulatory structure simply hasn't kept pace with increasingly complex and global markets. I agree, Mr. Chairman, with your proposal to create a systemic risk regulator.
- Second, we need greater transparency in our financial markets both for investors and regulators. To regain trust in the markets, investors and regulators need a fuller and clearer picture of the risks posed by increasingly complex financial instruments and contracts.

Morgan Stanley shares your desire to restore faith in our financial markets and get the American economy going again. We know that won't be easy. And, we know it will take time. But we're committed to working closely with you – as well as our regulators and other market participants – to achieve these important goals.

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