MORGAN STANLEY CHAIRMAN AND CEO JAMES GORMAN SURVEYS THE FINANCIAL LANDSCAPE

James P. Gorman
Chairman and CEO
Morgan Stanley

Excerpts from Mr. Gorman's Remarks

Is your lack of background in investment banking or trading an advantage or disadvantage in running Morgan Stanley? Having seen to many different cultures and businesses has certainly been helpful to me….It's like any business. It's what you do in managing very talented people. You have to understand what motivates them and respect what motivates them, but at the same time let them know that if you're on our team, you're on our team. You're not an individual; you're part of the team and you're going to play by the rules of the team.

How have you changed what Morgan Stanley does? You have to look at yourself as an institution and say, what are we really good at and could we generate the same kinds of returns with much more capital and much more liquidity than we had in the good old days, when obviously it was a much more levered industry.

And we at Morgan Stanley have prided ourselves for, you know, nearly 80 years on being an institution that provides world-class advice as sort of an intellectual capital at the heart of the DNA, and advice that's not to ourselves, it's to others. So if you put the advice and the client together, that tells you what your DNA is. So we shut down all of the proprietary stuff because, A, we weren't very good at it, and B, it just wasn't part of our DNA and it wasn't where the regulatory world has moved, and we doubled up on the things that we think we're much better at, which is giving advice, whether it's to individual investors or in M&A transactions or the like.

And I think that shift of an institution has made us safer, a little less flashy, but with enormous ballast for the tough times, and I think as an investment proposition or employee proposition or a client proposition, just a more stable institution. And I think that's a good outcome.

What happened with the Facebook IPO, which Morgan Stanley led? Well, I think the most important thing about the Facebook IPO is not the IPO; it's the Facebook part. This is a great American success story and this is the kind of thing that has made this country extraordinary. And the level of innovation, of creativity, and then the financial support to bring what was an idea in a dorm room to be an $80 billion company with billions of people following it and logging on every day, as I'm sure all of you are, it's just extraordinary.

So the IPO I regard as kind of an event in this extraordinary company. And it was disappointing to me, during the whole IPO process there wasn't more of a celebration of what that management team had done and what they had created in terms of vibrancy for the economy and the competitive instinct for everybody else in the Valley to come up with other ideas and be the next Facebook. So that's just sort of my editorial on the side.

The actual IPO, I mean, it was a mess. The market opening was a mess. It was something that was completely unprecedented, the hype going into it. And pricing that stock, you price it based upon what the observable demand for the stock is….So there's a balance. That's what markets are, and you try and find the market. And when we had that mess at the

opening, I said publicly on CNBC, who were covering us a lot about it, that I felt a little patience was called for, and give it a year, and let's, in a year, judge whether this really was what everybody had said it was. And it took 15 months, didn't take a year, so we were off by a little bit, but it's trading up 15% and it remains a great American success story.

How is Morgan Stanley's recruiting going? We had something like 88% acceptance of college kids this year, and — I talk to these kids all the time going up and down the elevators, and you know, they're as smart as whips, and we have no problem — I think we had a hundred thousand resumes last year. We get a lot of talent coming through the door. So I'm not worried about that. In terms of senior people, we have a great team. Most of my management committee are Morgan Stanley veterans of 20-plus years; I'm very proud of that. I'm kind of the new kid on the block.

What about TARP? Most people think the banks got $700 billion. The banking system got about $250 billion, and the banking system has paid back over $260 billion. In our case, we paid back our money very quickly with a 20% return to taxpayer on annualized basis, which is great. Taxpayers deserved it; they took some risks, they deserve a sporty return. So TARP worked. I mean, what Treasury Secretary Paulson, Chairman Bernanke and Tim Geithner, head of the New York Fed at that point did, I think, was gutsy and right, and it worked.

What about tapering? I think it's great, and here's the reason, because it's a sign the economy is recovering. The reason that the government can cut back is because the engine has enough muscle itself, it doesn't need this artificial help. So we should all look forward to the day when tapering comes.

And you know, Wall Street's going to go a little nuts when they start tapering, because everybody's trying to time it perfectly. I think Chairman Bernanke said when unemployment hits 6.5%; well, does he mean actually the day it hits? Does he mean three-quarters of that? Does he mean on a trend line towards it? Everybody's trying to be too clever figuring it out. My attitude is forget about that. The important thing is people are getting back to work. That's a great answer. And if that means the government's pulling back from easing, then that's a necessary step to get the whole machine going. If it means Wall Street's in a state of disrepair for a few weeks, then that's our problem.

What about the debt limit? It's like one of these things that's like a permanent headache, you know? It just won't go away, but it's not disabling. You still go to work every day. You know, eventually, the political community gets to the right place. It's pretty clear that the U.S. needs to address the debt issue. There's been a Fix the Deficit group, which I think has been very constructive, and other groups that have tried to help.

I just, you know, really hope and pray that our political community can come to a middle ground. It's not like one side is going to wake up one morning and say, you know what? The other guys were right all this time. So that's not going to happen. [Scattered laughter.] So therefore, there are two other outcomes. They come to a middle ground, or they do nothing. And the longer we do nothing, the more it just capitalizes interest and hurts future generations of Americans who don't deserve this. I mean, they don't deserve this great burden. And I don't understand why folks can't be rational and accept in any significant debate, there has to be some give and take in it. And I thought the Simpson-Bowles Commission laid out — whether it was the right answer, it was a very plausible set of doable things, which would have taken a little bit from both sides and unfortunately, didn't go through.

DAVID RUBENSTEIN: Welcome, members and guests of The Economic Club of Washington, welcome to this luncheon event of the Club at The Ritz Carlton in Washington, DC. I am David Rubenstein, President of The Economic Club of Washington.

We are very pleased today to have as our guest speaker James Gorman, chairman and CEO of Morgan Stanley. Mr. Gorman has held that position as chairman and CEO since 2012. He became the CEO in 2010, and prior to that he ran the global wealth management business of Morgan Stanley. He came to Morgan Stanley in 2006 from Merrill Lynch, where he ran their global private client business. Prior to Merrill Lynch, he was for 12 years at McKinsey, where he was a senior partner and oversaw their financial services practice, and was recruited to Merrill Lynch by the CEO of Merrill Lynch. Prior to being a partner at McKinsey, he had been at Columbia Business School, which he went to after practicing law.

Mr. Gorman is a native of Australia, grew up there, got his undergraduate degree at University of Melbourne and his law degree, practiced law for four years in Australia, and then went to Columbia Business School and started his ascent up in the financial service world.

Morgan Stanley is of course of one of the best-known financial service organizations in the world. It has a market cap today of about $57 billion, has about 55,000 employees, and has annual revenue of about $33 billion.

So, very impressive. Thank you very much for coming here today.

Let me just ask you two questions at the outset, before we talk about Morgan Stanley, a bit about your background. You are known as James Gorman, not Jim Gorman. Most people who have the name James, they use Jim, but you're famous for being James Gorman. So what is the reason for that? [Laughter.]

JAMES GORMAN: Firstly, delighted to be back in Washington and with the Economic Club. David, thank you for having me. It's a great honor.

And I have to say, before I answer that tricky question — [laughter] — that hearing my resume, it feels a bit like I can't keep a job. [Laughter.]

That's a pretty funny story. It was one of these moments which journalists will appreciate. We jokingly said in a meeting about 15 years ago in front of a journalist — one of my colleagues said, he doesn't want to be called Jim; call him James.

And it's actually partly true, and the reason is, I'm one of originally 12 children, and my mother, who is 89, always wanted me to be called James. So as all of you know, you do what your mother says. [Laughter.]

MR. RUBENSTEIN: OK. Well, by the way, I'm an only child, so I didn't have the experience you did. But what is it like to have 12 children in the family? Ten of them are still alive today. You know, is it like dealing with Wall Street, that people want higher salaries when they keep

coming to you? [Laughter.] Is dealing with children, like that many brothers and sisters —what is that like?

MR. GORMAN: We never grow up. In fact, I had some email exchanges with two of my brothers last night. You know, my dad is 91, the parents both alive, and we always sat around the table together every night. And the deal was that you had to say something of interest that happened that day. And if it was about you, that generally was considered not very interesting. [Laughter.] So you're forced to think.

And in the early days my elder sister, who is a wonderful person, very brilliant, and one of the top judges in Australia — was in the peace marches around the time of the Vietnam War, and at the same time that she was a young university student, at the same time the youngest member of our table was my little brother, who was at kindergarten. So you had to have sufficient social antennae that you could keep that crowd interested.

And so I think it was always entertaining, and you were forced to relate to people who were at times very difficult and often very different from you. So it was actually a bit like what I do today. They're all children I work with, you know. [Laughter.]

MR. RUBENSTEIN: But when you go back to Australia now — you're running one of the biggest companies in the financial service world. You're a big deal on Wall Street and everywhere in the business community. When you go back and you have your nine siblings, do they treat you like you're a big deal, or do they ask you just not to talk that much?

MR. GORMAN: Well, the usual is I turn up and usually they'll hold a barbecue at one of my brothers' or sisters' homes and everybody will gather, which for us is a family lunch, I'd say it's a bit like this room. [Laughter.] I have 32 nieces and nephews, and so we have something like — I think there are 71 of us altogether, my immediate family. And as you walk through the gate — yeah, we cater lunches [laughter] — as you walk through the gate, invariably one of my brothers or brothers-in-law will call out a, you know, here's Jim, because they want to give me a hard time, and, where'd you park your jet, on the front lawn? [Laughter.] You know. And it just goes downhill from there. [Laughter.]

MR. RUBENSTEIN: So, you know, it's very unusual for somebody that came out of a consulting background, and also, let's say, not American, to rise up to run one of the large Wall Street firms. So you have an unusual background. You're Australian and you were a consultant by trade before you got into Wall Street. So is it an advantage or disadvantage, not having come out of the investment banking or trading business, in running Morgan Stanley?

MR. GORMAN: Well, there have been so many great leaders that have come out of the investment banking business, you know, at a lot of the firms, that it's certainly not necessary to have a different experience. I think in this time right now, having seen so many different cultures and businesses has certainly been helpful to me. And, you know, the deficit is I never traded a stock, and the financial advisers will always criticize me and say, you never dropped a ticket. So one time in a group like this, with about 400 of our financial advisers, I got on the stage and I took a piece of paper, I dropped it on the ground, and I said, so I've now done it; can we move on? [Laughter.] You know.

MR. RUBENSTEIN: Well, so, you'd say, in other words, it's not a big disadvantage. You obviously have a very good mind and you've got a very good track record in the consulting area and obviously in the global wealth management business. When you're managing traders and investment bankers, though, do they have bigger egos than you usually deal with in the consulting world, or is it harder to manage them, or it's not that difficult?

MR. GORMAN: Well, you haven't met my full family, so — [laughter].

MR. RUBENSTEIN: So you're used to it.

MR. GORMAN: No, you know, you've just got to figure — it's like any business. I mean, it's what you do in managing very talented people. You have to understand what motivates them and respect what motivates them, but at the same time let them know that if you're on our team, you're on our team. You're not an individual; you're part of the team and you're going to play by the rules of the team. And we'll celebrate what you're really good at, what you bring to the team, but you've also got to respect what everybody else is good at.

And for some folks, they don't like that constraint. You know, they want to be their own boss, and I respect that. But if you're going to work at these public companies, you know, you're owned by shareholders, you have boards and governance structures, and you've got to play as part of the team.

MR. RUBENSTEIN: Now, you are seen in Wall Street as trying to de-lever the risk profile — reduce the risk profile of Morgan Stanley and maybe get less money out of proprietary trading and more out of asset management. And what was the reasoning behind that? And are you happy with the change you've made in Morgan Stanley towards that end?

MR. GORMAN: Well, that's sort of a very important question getting at kind of what we've done with our firm. You know, firstly, the world changed, and I'm very pragmatic about the reality of what you're dealing with. We could all wish the world were different, but it ain't different. It's what it is today, and you've got to adjust to that. And the regulators, I think, generally have done a very good job in forcing institutions that want to carry enormous risk and are systematically important to support that risk with lots of capital and lots of liquidity, which is very expensive. And as a result, you have to look at yourself as an institution and say, what are we really good at and could we generate the same kinds of returns with much more capital and much more liquidity than we had in the good old days, when obviously it was a much more levered industry.

And we at Morgan Stanley have prided ourselves for, you know, nearly 80 years on being an institution that provides world-class advice as sort of an intellectual capital at the heart of the DNA, and advice that's not to ourselves, it's to others. So if you put the advice and the client together, that tells you what your DNA is. So we shut down all of the proprietary stuff because, A, we weren't very good at it, and B, it just wasn't part of our DNA and it wasn't where the regulatory world has moved, and we doubled up on the things that we think we're much better at, which is giving advice, whether it's to individual investors or in M&A transactions or the like.

And I think that shift of an institution has made us safer, a little less flashy, but with enormous ballast for the tough times, and I think as an investment proposition or employee

proposition or a client proposition, just a more stable institution. And I think that's a good outcome.

MR. RUBENSTEIN: But the market seems to have liked what you've done so far. Your stock is up about 55% this year. Your market cap, as I mentioned earlier, is about, I think, $37 — I'm sorry $57 billion. But at the peak, it was $90 billion. So do you have a realistic goal to get it back to $90 billion, or is that just too far in the future?

MR. GORMAN: Well, I wouldn't want to share with everybody here — [chuckles] — if we're going to — [laughter] — just a few of you can come in the back room and we'll [laughter] — but no, the funny thing was, you know, in the year 2000 this industry — I think most of you folks probably know the industry very well — but the industry generally traded between 1 ½ times book — if stocks traded below that, they were cheap, and above 2 ½ times they were expensive. And for a long time it traded along — maybe 1 ¼ to 2 ¼, but that kind of range.

And there have been two periods of anomaly in the last, you know, many, many decades. One was in 2000, where we, as an example, traded at six times book, and everybody thought, because we were leading a lot of Internet underwritings, we were an Internet company. They got confused. We're like the bank doing the underwriting, we're not the company. And we traded at six times book. And that's when the stock was over a $100, market cap was $90 billion.

That was nuts. You should never be trading at six time book. And 12 months ago we were trading at about .4 book, and that was equally nuts. They're both as crazy as each other. And now today we're trading at about book value, so I would argue we're still cheap, but it's — you know, the world has been through a difficult crisis.

So, you know, as we normalize and as I believe our strategy plays out, I'm very confident we'll return to those kinds of market cap levels.

MR. RUBENSTEIN: Now, you mentioned Internet and tech company. You have been a leader in underwriting a lot of tech companies. The Internet — Mary Meeker, when she was with you, and others led that effort. And you famously led the Facebook IPO, and some people thought that was too highly priced. The price is now above where it was at the IPO. Would you like to comment on how the Facebook IPO occurred and whether you're satisfied with the result?

MR. GORMAN: Well, I think the most important thing about the Facebook IPO is not the IPO; it's the Facebook part. This is a great American success story and this is the kind of thing that has made this country extraordinary. And the level of innovation, of creativity, and then the financial support to bring what was an idea in a dorm room to be an $80 billion company with billions of people following it and logging on every day, as I'm sure all of you are, it's just extraordinary.

So the IPO I regard as kind of an event in this extraordinary company. And it was disappointing to me, during the whole IPO process there wasn't more of a celebration of what that management team had done and what they had created in terms of vibrancy for the economy and the competitive instinct for everybody else in the Valley to come up with other ideas and be the next Facebook. So that's just sort of my editorial on the side.

The actual IPO, I mean, it was a mess. The market opening was a mess. It was something that was completely unprecedented, the hype going into it. And pricing that stock, you price it based upon what the observable demand for the stock is. You have a seller — let's say you have somebody selling their house and you have two buyers coming along and they say we'll give you $500,000, one of them says, the other says $520,000; and if you're advising the house seller, you'd probably tell them to take whichever you thought had the best chance of closing, because they're close enough. You wouldn't come in and say, you know, I've got another buyer for $200,000, why don't we do that? The owners would say, get out of here.

So there's a balance. That's what markets are, and you try and find the market. And when we had that mess at the opening, I said publicly on CNBC, who were covering us a lot about it, that I felt a little patience was called for, and give it a year, and let's, in a year, judge whether this really was what everybody had said it was. And it took 15 months, didn't take a year, so we were off by a little bit, but it's trading up 15% and it remains a great American success story.

MR. RUBENSTEIN: There are two quotes that you are well-known for in Wall Street. Let me see if I can get them more or less right. That you said to people in Morgan Stanley who thought they were not paid enough, if they weren't happy with their compensation they could go elsewhere, because they were too highly paid and they were taking too much risk. Is that more or less right and your view is that Wall Street people were too highly paid at some point?

MR. GORMAN: No. [Laughter.]

MR. RUBENSTEIN: Was anybody too highly paid?

MR. GORMAN: Well, I won't go into that. No, if you think of a spectrum of compensation, you know, there are the very greedy people who want to maximize personal comp in the shortest possible time period. Then you've got the economic rationalists who figure that you've got to compensate yourself as well as the owners of the business. Then you've got the people who feel like there's just a maximum amount of compensation people should get paid — there's kind of a moral sense, and then there are other folks who I guess just don't agree with the capitalist model, and everybody gets paid the same.

You know, I'm clearly in the economic rationalist bucket, which was pretty simple. If somebody gives you their capital to use, and you don't give them a return on it, but you keep paying yourself as though you did, at some point, the person who gave you the capital picks up their money and goes home — like picking up your bat and ball and they leave, and you don't have a business. So what I said to our folks was, just like we had to be patient on the previous conversation, I said, let's deliver a return for our owners and worry about paying ourselves once we've done that. And if we get that in reversal, which Wall Street has done from time to time, you get very frustrated investors, and the stocks trade very poorly.

So we have deferred the sort of self-gratification to improve the performance of the company, make the investments we needed to make, and then, as the company improves and shareholders are rewarded, the owners are rewarded — we should definitely be rewarded. There's no upside to what people can be paid if they perform well. Nobody's telling the owners

of these new IPOs they can't get the money from the IPO; it's the same in any business. So it's really a sense of just balance — a shareholder gives you money, and they expect a return; we better give them a return.

MR. RUBENSTEIN: So you're not having people leave you because they're not highly paid enough, more or less, and you're not having a hard time recruiting people?

MR. GORMAN: I mean, our campus recruiting numbers — I don't have the exact numbers David, but I think we had something like 88% acceptance of college kids this year — I talk to these kids all the time going up and down the elevators, and you know, they're as smart as whips, and we have no problem — I think we had a hundred thousand resumes last year. We get a lot of talent coming through the door. So I'm not worried about that.

In terms of senior people, we have a great team. Most of my management committee are Morgan Stanley veterans of 20-plus years; I'm very proud of that. I'm kind of the new kid on the block.

MR. RUBENSTEIN: Now, the other quote that you are famous for or well-known for is, you said something along the lines that you didn't expect that the type of financial crisis we experienced in 2007 and '08 would recur again in our lifetime. And would you still stand with that statement, or do you think that was a little bit too broad?

MR. GORMAN: Well, it doesn't really matter because I can't take it back anyway. [Laughter.]

MR. RUBENSTEIN: Well, you can do it now if you want, or you can — I take back my statements all the time. [Laughter.]

MR. GORMAN: No, what I said was that a financial crisis of that kind — of the kind we went through — the probability of that occurring in our lifetime was nearly zero. And I think that's true. Doesn't mean it's zero — I said nearly zero and I said that kind of financial crisis. The last time we had one of these was 1935, and I'm probably not going to live for another 68 years, so, of course, some mags then had pictures of me dying, you know, next week, and —which I thought was a little unkind.

MR. RUBENSTEIN: Your mother wasn't happy?

MR. GORMAN: Yeah, my mother wasn't. She's not expecting me to predecease her; that's for sure. So, you know — and the reasons are, you know, it's not just a flippant, off-the-cuff — there is some logic behind it. What caused the financial crisis was a series of institutions that took, in my opinion, a level of credit risk which, if they were sufficiently wrong, would wipe out their equity capital. Investors — people who were doing business with them, as it began unfolding, panicked about it and said, well, if your capital is wiped out, you go into bankruptcy or you disappear, what's happened to my money that's sitting inside your institution? I want my money.

And what we got to see was the Jimmy Stewart film "It's a Wonderful Life." Everybody's going to the bank saying I want my money, because I see you're doing all this risky stuff that might go bad, and my money's going to get trapped. And, you know, like in the Jimmy Stewart film, when he's trying to explain, well, you know, Mrs. Jones, your money is helping Mr. Brown pay for his house, she says, that's all well and good; I want my money.

And that's called a liquidity crisis. So it was a fundamental lack of confidence around credit which drove a liquidity run, and eventually, you just run out of money. So the question is, how long does the crisis go on for, and how long do you have a liquidity crunch? And the way the banks around the world were financed in those days, they generally had, you know, as few as two weeks to six weeks of liquidity. So if this went on for two to four or six weeks, they were gone. And it didn't matter how good the business was, they'd have to shut, because they couldn't fund themselves. And indeed, a number of them closed.

We and Wall Street broadly defined the commercial banks and the world liquidity profile as dramatically different. We could fund ourselves for a year, and we have doubled the capital. And if things did go bad, the government under Dodd-Frank implemented two processes — one called orderly liquidation authority, which means that they see bad things happening —you're being a reckless management — we're going to unwind your institution; they can just sell off your pieces and unwind you, or there's something called a resolution, where you get put into effective bankruptcy.

So firstly, I would argue there is a cultural shift which will not be permanent for sure, but secondly, these structural changes of liquidity and capital are demonstrable at a level which is truly underappreciated in the general public domain. And at the back end, the resolution and orderly liquidation are real and are tools that were not available in the last crisis. Could all of that amount to naught? It could. Do I think that's likely to happen? No. And the point of what I was saying was — and why I made that comment was — I don't think it is widely understood how healthy our financial system is now, and that needs to be known, because that drives the economy. That doesn't mean there isn't going to be some trader tomorrow do something stupid or some bank somewhere do something stupid — individual institutions will always mess up. The system, though, is much healthier, and that was what I was trying to say. I should have been more elegant in saying it.

MR. RUBENSTEIN: Well, you just explained it very well. So let me ask you — you joined Morgan Stanley in 2006? So shortly thereafter, there's this crisis, and at one point, it was thought that Morgan Stanley and other firms might not survive. Do you think, without the TARP money, Morgan Stanley could have survived?

MR. GORMAN: Well, that's an interesting question. What is not well-known is I was actually in Washington with my predecessor, John Mack, meeting with the management of Mitsubishi Bank — MUFG — their CEO and president at a little hotel in a backroom here in Washington at about 3:00 in the afternoon, where all the lights were dark — it was like one of these mafia movies. And we agreed in that meeting that they would invest $10 billion in Morgan Stanley.

On the way to the airport, John had a phone call from then-Treasury Secretary Hank Paulson saying, I'd like you to come Washington. He said, I'm actually just leaving. He said, well, I'd like you to come back tomorrow morning. And the next morning, we were given $10 billion. So we got $20 billion. I don't want to say it wasn't needed. What was necessary about TARP was, it took the good, the bad, and the ugly of the U.S. financial institutions, put them all in a room and said, we're not going to tell you whose good, whose bad, and whose ugly, but we're going to tell you, you're all going to take a certain amount of money, because if we single some out and not others, then it's going to create a problem.

And after a little whimpering from a couple of them — and not us; and everybody took their money, and that was a great thing. And the banks — a fact that maybe everybody here knows, but I'll just give you a number that's worth knowing —TARP was $700 billion. Most people think the banks got $700 billion. The banking system got about $250 billion, and the banking system has paid back over $260 billion. In our case, we paid back our money very quickly with a 20% return to taxpayer on annualized basis, which is great. Taxpayers deserved it; they took some risks, they deserve a sporty return.

So TARP worked. I mean, what Treasury Secretary Paulson, Chairman Bernanke and Tim Geithner, head of the New York Fed at that point did, I think, was gutsy and right, and it worked.

MR. RUBENSTEIN: One more question on the past, because when Mitsubishi agreed to invest, your stock was higher than it later turned out to be. At one point, they were putting in that money when your stock was roughly one-third of the price that it had been when they agreed to do it. So were you worried that they were going to say, we're paying too much for something that is now trading at, let's say, one-third of what it was?

MR. GORMAN: I think they, like good investors, were able to see through the dust and the storm, and their investment decision was based upon a fundamental belief that Japan has gone through an extraordinary economic rebalancing where essentially it's created excess deposits, because people live a lot longer and aren't spending, and they're great savers, and they don't have a lot of asset growth. And we're an asset-generating firm.

So the investment was strategic. What most people mistakenly think is Mitsubishi woke up one morning in the crisis, said, wow, that's a great opportunity. Let's come put $10 billion in Morgan Stanley; that's not true. They had been thinking about this for 20 years. And it just happened the door opened on that day. And when the door opens, you walk through it. If you have strategic intent, you've got to follow through.

So they were less focused on the actual pricing of the security on that day and whether they could have got a better deal or not than they were on what their ultimate strategic partnership is, which has been phenomenal. By the way, they didn't buy common equity at that point; they had bought a preferred security which paid them a 10% dividend, like Mr. Buffett had a dividend. So you know, it wasn't such a bad investment. You get a nice sporty 10% dividend.

MR. RUBENSTEIN: So today, you mentioned the Dodd-Frank legislation. You said it has some pluses. But what do you think about the Volcker Rule? Will we live long enough to see it? [Scattered laughter.] And do you think it's a plus?

MR. GORMAN: Will we live long enough to read it? It's already — [laughter] — it's long.

Firstly, I've had the pleasure of meeting with Mr. Volcker a number of times, including privately, and I think, you know, he's a great patriot. I think he's done a phenomenal job for this country as Chairman of the Fed and then more recently. But my solution on this was a little different. I think the way to manage businesses as a regulator is to turn the dials, if you will, on capital liquidity and leverage. In other words, say, all right, you want to be in that business, we're going to require you to keep $3 of capital; whereas if you're in this business, it's $1 of capital. If you want to be in this business, we're going to require you to have 20% of your balance sheet liquid and this business, 10%, and so on, and turn the dials up or down depending on the business.

So you as a business person look out and you go to your board and you say, gee, we want to be in these businesses that are more risky; the regulators require us to have a lot more capital to do that. Do we think we can get a decent return? Probably not. Is it prudent? Probably, we're not going to be in it.

And because trying to manage things by defining what activities you can be in and not be in might look clever today, but several years from now, who knows how people will redefine it. The reason the Volcker Rule has taken so long to crystallize is, what is their proprietary position? I'll give you an example; we hold billions of dollars of municipal bonds in our inventory because we have clients — hopefully, all of you — calling up and want to buy a muni bond. And we have them in our inventory and we sell them to clients.

We take gains on those bonds occasionally and sometimes losses; is that running a principle business or an agency business? Are we doing it for ourselves ultimately, or because we have clients?

So I think it's much simpler not to try and tell people what businesses they can and can't be in and more to say, you want to be in that? And make it as punitive as you want.

MR. RUBENSTEIN: OK, so you're in Washington today, obviously, and suppose the President called you and said, come on over, I'd like to know what I should do about appointing a new Chairman of the Fed. [Laughter.] So tell me what Wall Street thinks. Would you like to see me keep Mr. Bernanke? Would you like Miss Janet Yellen, anybody else? Do you have any views on what you would tell the President you might want to share with us about the Fed chairmanship?

MR. GORMAN: Well, David, as you know, any conversation with the President is private, so I wouldn't be able to share that.

MR. RUBENSTEIN: Does Wall Street have a view — does Wall Street generally have a view on what the President should do on that?

MR. GORMAN: I think there are a lot of individual views and everybody has their personal favorites. What I think is disappointing is when — and I don't know if you saw, David Gergen wrote a piece last night — it might have been an online piece — but about the appointment process. And he pointed out, this might be the second-most important job in the country right now, and in many countries, it's the most important job in the country for periods of time. And you know, it would be awfully nice for it be — you know, it's like in Lady Macbeth, if it were done well, then t'were done quickly — get this thing done and get it done privately.

I don't think it's constructive for the public debate around such an important role as Chairman of the Federal Reserve, and you know, I hope that they come to a speedy resolution. Larry Summers and Janet Yellen and several others are extraordinarily qualified people, whether one of them more has advised towards continuing or not continuing quantitative easing — you know, people change their views and change their approaches, so.

MR. RUBENSTEIN: So, all right, well, whoever gets the position will presumably have to do some tapering of quantitative easing. Are you worried as a major official on Wall Street that that tapering will disrupt the economy or will have market dislocations? Or what do you think will be the impact?

MR. GORMAN: I think it's great, and here's the reason, because it's a sign the economy is recovering. The reason that the government can cut back is because the engine has enough muscle itself, it doesn't need this artificial help. So we should all look forward to the day when tapering comes.

And you know, Wall Street's going to go a little nuts when they start tapering, because everybody's trying to time it perfectly. I think Chairman Bernanke said when unemployment hits 6.5%; well, does he mean actually the day it hits? Does he mean three-quarters of that? Does he mean on a trend line towards it? Everybody's trying to be too clever figuring it out.

My attitude is forget about that. The important thing is people are getting back to work. That's a great answer. And if that means the government's pulling back from easing, then that's a necessary step to get the whole machine going. If it means Wall Street's in a state of disrepair for a few weeks, then that's our problem.

MR. RUBENSTEIN: All right, is Wall Street, let's say, not worried about that as much, are you worried about the debt limit? We don't have a debt limit agreement in the United States right now, and we could default on our debt. Is Wall Street worried about it? Are you worried about it?

MR. GORMAN: It's like one of these things that's like a permanent headache, you know? It just won't go away, but it's not disabling. You still go to work every day. You know, eventually, the political community gets to the right place. It's pretty clear that the U.S. needs to

address the debt issue. There's been a Fix the Deficit group, which I think has been very constructive, and other groups that have tried to help.

I just, you know, really hope and pray that our political community can come to a middle ground. It's not like one side is going to wake up one morning and say, you know what? The other guys were right all this time. So that's not going to happen. [Scattered laughter.] So therefore, there are two other outcomes. They come to a middle ground, or they do nothing. And the longer we do nothing, the more it just capitalizes interest and hurts future generations of Americans who don't deserve this. I mean, they don't deserve this great burden. And I don't understand why folks can't be rational and accept in any significant debate, there has to be some give and take in it. And I thought the Simpson-Bowles Commission laid out — whether it was the right answer, it was a very plausible set of doable things, which would have taken a little bit from both sides and unfortunately, didn't go through.

MR. RUBENSTEIN: So let's assume that eventually, the debt deal is worked out. But what would you say Morgan Stanley thinks or you think is likely to be the GDP growth of the United States next year or so? Do you see any risk of a recession, or grow at 2½%? What would you say is likely to be the growth rate or the state of the economy in the United States?

MR. GORMAN: I'm much more bullish than most people on the U.S. I think it's probably — if you had to make a risk-return tradeoff of investing somewhere in the world, I'd invest in the U.S. right now. And I don't think you've been able to say that for 30 or 40 years. There are still emerging markets that are growing faster — China is growing at, you know, 6% or 7% — but I think on a risk-return basis, you'd have to look at the U.S. as being — and the reasons are, you know, we have great immigration, we have continued great mobility, we have a clean, healthy banking system, we have corporate balance sheets that are clean, we have consumers who have delivered their personal debt, we have 401(k) plans up at 12% last year, probably that much this year. Every dollar that's going to the housing market is in almost every part of this country is a dollar of equity to the homeowner. These are great things. And there is no irrational exuberance in the market. So I think the U.S. is in really strong fundamental shape. Whether that translates into 2, 2½, 3, 3½%, — you know, I'm not an economist, I don't know. But I'm just bullish on the U.S., and I think we should celebrate a little bit the fact that this country is coming back.

Now, there are problems. There are still kids coming out of colleges who can't get jobs. The minimum wage in this country is very low for a lot of working families to raise a family with. We have parts of the country that have still not recovered from, you know, their own mini-recessions, regional recessions. So there are problems. But relative to the rest of the world and relative to where we were, we're in a much more stable place. So now it's a question of the slope of the gradient. We're going to grow like this or grow like that. The question — I don't think it's a recession.

MR. RUBENSTEIN: OK. So people might be watching this on television or here today, and you're the head of Morgan Stanley, one of the biggest money managers in the world. So they might want to know, leaving aside the Morgan Stanley stock that you presumably own, what do you do with your money? I mean, where do you — what you put in equities, fixed income? Can you give any advice about what people should —

MR. GORMAN: Me personally?

MR. RUBENSTEIN: Yes. What do you do with your money? Where is your money? People will say you're the head of Morgan Stanley; where is your money invested? Where should they put their money? [Laughter.]

MR. GORMAN: OK.

MR. RUBENSTEIN: I — other than Morgan Stanley stock. I assume Morgan Stanley stock is your biggest investment, I assume, but — one of your biggest ones.

MR. GORMAN: Tell you — tell you exactly what we do. And my wife and I actually just met with our financial adviser on Friday —

MR. RUBENSTEIN: Who's a Morgan Stanley —

MR. GORMAN: — who's a Morgan Stanley private wealth adviser. [Laughter, applause.] And I have her phone number if any of you would like to meet with her — [laughter] — very talented young lady — and her team.

We're pretty boring, partly because of the job I'm in and partly because I think in life and in business it behooves you to take catastrophic risk off the table. Once you take catastrophic risk off the table you can do lot of other things besides. So we inverted municipal bonds to ensure we have catastrophic risk off the table and have a cash flow if, God forbid, the world falls apart. And obviously, I hold the Morgan Stanley stock. And we invest in one very tech fund with somebody who I respect deeply and has done a phenomenal job. And then with our kids' accounts, we invest globally with equities distributed all over the world because hopefully, they'll live a long time and the rest of the world will bounce back and that'll be good for them. So we're very modest and very unspectacular.

MR. RUBENSTEIN: Think you have enough private equity in your portfolio, or not? [Laughter.] I guess you can never have enough private equity in my view, but OK. [Laughter.]

Right. So why should somebody — well, here's a chance for you to talk to people here and maybe help Morgan Stanley. Why should somebody have their money managed by Morgan Stanley? You have an enormous number of brokers. You manage enormous amounts of money. I guess going to be a trillion dollars or close to that. Why should somebody have their money managed by Morgan Stanley? I assume you're very good at managing money, but what would be the best reason?

MR. GORMAN: Well, we manage a trillion eight, which makes us, depending how you count it, you know, number one or two in the world in size. And we manage money for about 3 million households in this country and a bunch overseas.

I think what you want is two things. One, you want to know that the institution cares about what you — the business you're doing with them, whatever that business might be, whether it's getting a mortgage or investing or, as a corporation, borrowing. And our institution only participates in the advising, the managing, the distributing and trading of capital. That's what we do. So we do it for governments, we do it for corporations, and we do it for individuals, we do it for foundations, we do it for universities, we do it for not-for-profits. But that's all we do. So there's an intensive focus around what we do and what our clients need. So that's a good thing.

Second thing is, is the institution stable, does it have good values, will it do the right thing, and does it have the resources to apply a level of intellectual capital to my problems as an investor, whatever they might be, whether it's somebody who wants to invest in private equity or somebody who wants to invest in municipal bonds. And unambiguously, we have that because that's what we do. So that's the first part. And I think you could check that with Morgan Stanley.

The second part then is, so who's going to help me, who's going to pick up the phone, who am I going to work with. And then it's a lot around the capability of the team, the structure of the team but also personal chemistry. And my wife and I, in the time when we had to find a financial adviser, I asked to meet with three or four different teams. So — and I think it's like anything — hopefully you do this when you find a new doctor you go and meet with two or three or four different doctors and find out who you think relates well to you, understands you at a level you're comfortable with, and has the energy to work with you on the way you want them to. And from that, you sort out and you find.

One of the top CEOs in the country called me the other day whose adviser had retired, and he asked me for a recommendation. I said, I'm not going to give you a recommendation. He said, well, why not? You have 7,000, to 8,000 people. I said, because I'm going to give you four or five people on paper to think about; I recommend you talk to three of them, and then I suggest you and your wife decide. And that's what he's going to do. But it's the chemistry and the capability of the team with the credibility and the resources of the institution.

MR. RUBENSTEIN: What is the greatest pleasure you get out of running Morgan Stanley, and what's the biggest headache? Other than this interview, I guess. [Laughter.]

MR. GORMAN: The greatest pleasure I think is being given the privilege to take an institution that's had some pretty dark times, as most of big banks did in the crisis, and restore it to the kind of institution that it was for most of its 76 years and what for it was revered for and had the privilege to do that and to take the decisions that when you're making the decisions to get you on that path. You're always criticized, as you know; in any public eye position, doesn't matter who you are, you're being criticized continuously. And having in your gut and your heart a confidence that we're making the right decisions, and everybody else is going to figure it out eventually, which is — sounds arrogant, but it's a balance between confidence that you've got a plan, and you're going to push on that plan and then getting the employees excited behind that plan. That's the positive.

The headache of a — you know, I — there really isn't one. I mean, I'm a very lucky person. I grew up in a huge family in Melbourne, Australia. And almost by accident, I applied to business school because I wanted to just expand from being a lawyer. I didn't think I was a very good lawyer. I was the sixth lawyer in my family, and I was the least talented of all of them. They pretty much kicked me out. [Laughter.] And, you know, and here you are running a place like Morgan Stanley, it's a great honor.

You know, if I'm complaining about this, you know, occasionally, we'll come home, and I'll be sitting with my wife, and she'll remind me that, you know, I'm in Washington these three days, and then on Sunday morning I'm flying to Abu Dhabi, and then I'm in Qatar and Dubai on the next day, and then I'm flying to Budapest and then to Essen and Frankfurt and then to London; I'm flying home on Thursday night. And she'll say, you know, this is too hard, how is this possible, why are you doing this? And I say, because I choose to. And you think this is hard? How hard would it be if I didn't have a job and I'm coming home and we're sitting here all day talking together? [Laughter.] So she says, get to Essen. [Laughter.]

MR. RUBENSTEIN: Well, on that happy note — [laughter] — let me thank you very much for a very informative and interesting interview. [Applause.] Now, let me give you a gift from the Club. This is a map of the District of Columbia, the first map of the District of Columbia.

MR. GORMAN: Thank you.

MR. RUBENSTEIN: Thank you. OK. Thank you all very much.

JAMES P. GORMAN
Chairman and Chief Executive Officer
Morgan Stanley

James P. Gorman is chairman and CEO of Morgan Stanley, a leading global financial services firm. Mr. Gorman became CEO in January 2010, and Chairman in January 2012. He previously served since December 2007 as Co-President of Morgan Stanley, and has also served as Co-Head of Corporate Strategy. He joined Morgan Stanley in February, 2006 as President and Chief Operating Officer of the Global Wealth Management Group (GWMG).

Before joining Morgan Stanley, Mr. Gorman held a succession of executive positions at Merrill Lynch. From 2001 to 2005, he led the company's U.S. and, subsequently, global private client businesses. He joined Merrill Lynch in 1999 as Chief Marketing Officer, and also served as head of Strategy and Research. Prior to Merrill Lynch, Mr. Gorman was a senior partner of McKinsey & Co., where he was a member of the firm's financial services practice. Earlier in his career, Mr. Gorman was an attorney in Melbourne, Australia.

Among his civic activities, Mr. Gorman serves on the Federal Advisory Council to the U.S. Federal Reserve Board, the Board of Overseers of the Columbia Business School, the Monetary Authority of Singapore International Advisory Panel, the Business Council, the Financial Services Forum, and the boards of the Partnership for New York City and

Institute of International Finance. He formerly co-chaired the Business Committee of the Metropolitan Museum of Art and served on the board and as Chairman (2006) of the Securities Industry and Financial Markets Association in Washington, D.C.

Born in Australia (date of birth: July 14, 1958), Mr. Gorman earned a B.A. and law degree from the University of Melbourne and an M.B.A. from Columbia University.