STATEMENT OF

JAMES P. GORMAN

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

CONCERNING

HOLDING MEGABANKS ACCOUNTABLE: AN UPDATE ON BANKING PRACTICES, PROGRAMS AND POLICIES

PRESENTED ON

MAY 27, 2021

Prepared Statement

Chairwoman Waters, Ranking Member McHenry and members of the committee, thank you for having me here again today. When we were here in 2019, none of us could have predicted the extraordinary public health crisis that would unfold around the world.

We remain in the midst of this crisis that has caused serious humanitarian and economic issues, leaving an indelible mark on many of us. Our hearts go out to all of those directly and indirectly impacted by this crisis.

In response to these extraordinary and challenging times, we were focused on serving our clients and our communities, and taking care of our employees.

- We helped our corporate and institutional clients raise additional liquidity and obtain financing. We raised over $50 billion of capital for the industry sectors most affected – airline, cruise and travel. Our team also helped raise healthcare capital for both Moderna and Pfizer, including a sustainable bond issuance by Pfizer to support patient access to medicines and vaccines, especially among underserved populations.
- For our retail clients, we guided them to manage their investment portfolios amidst extreme volatility.

Today's Morgan Stanley, through its three businesses, provides a stable foundation of support in any market environment.

- In our Institutional business, we are a financial advisor to companies and help them raise equity and debt capital – from taking a company public to helping it issue bonds so that it can grow and create jobs. We help public sector entities raise municipal financing. We also help pension funds, mutual funds and other financial institutions trade and manage their assets.
- In our other two businesses – Wealth and Asset Management – we are managing over $5.6 trillion of assets for households and institutions, including endowments and pension funds that manage the retirements of our teachers, firefighters, and other public employees. For millions of U.S. households, our services help families save money – whether for college, retirement or to put a down payment on their mortgages.

Beyond our day-to-day core businesses, we also support the more vulnerable in our communities through philanthropy and employee engagement.

A number of well-publicized events last year led to a heightened and necessary focus on racial and social justice, and a recognition that explicit support and purposeful collective action will be required. Some of our efforts over the past year include:

- Providing grants to Minority Depository Institutions to bolster their loan loss reserves in the wake of the pandemic, and to assist minority and women-owned businesses to ensure an equitable recovery; and
- Starting a program to provide 60 students with full four-year scholarships to Howard University, Morehouse College and Spelman College – three of America's leading Historically Black Colleges and Universities.

In addition, we are concerned that how we deal with climate risk over the next decades will have a profound socioeconomic effect on our communities. Morgan Stanley recognizes the threat that climate change poses – and we are working with our clients to find ways to mitigate its effect.

Finally, early in the pandemic, we committed to making no reductions in our workforce through 2020, thereby providing reassurance to our 70,000+ employees in a very difficult time. I am proud of the commitment they have shown to our clients and to Morgan Stanley in the extraordinary circumstances of the past year.

Chairman Waters, in your letter dated April 30, 2021, you asked me to provide information on fourteen topics. Information regarding these topics is included in the attached addendum.

I now look forward to your questions.

Addendum

1. Your bank's size and complexity.

Morgan Stanley employs approximately 68,000 employees—up from 60,000 in 2019. Our employees live and work in 39 countries. In 2020, we reported approximately $48 billion in net revenues and approximately $1.1 trillion in total assets, as compared to approximately $40 billion in net revenues and approximately $850 billion in assets in 2018.

No bank is too big to fail—including Morgan Stanley. One of the important lessons learned from the 2008 financial crisis was that banks need to organize themselves to prevent the risk of failure, but also have coherent and credible plans in the event of failure. We have more than doubled the size of our wealth management and investment businesses, which now account for more than half of the Firm's revenue. By doing so, we have given the Firm a stable foundation of support in any market environment.

Since the financial crisis, we have more than doubled the size of our wealth management business. And in the past year, we furthered the transformation of our business through the acquisitions of E*TRADE and Eaton Vance—continuing our strategy of maintaining a durable balance sheet and sources of revenue, which should provide more predictable results during various market conditions in the future.

As an example of risk mitigation, under Dodd-Frank, we are required to have a resolution plan, or "living will," in place, so that if Morgan Stanley were to fail it would not undermine the wider financial system. As part of that resolution planning, we have taken significant steps, such as rationalizing our legal entity structure, to make it less complex and ensure that the structure supports our resolution strategy.

2. Your bank's end of year capital and leverage ratios, as well as the annual amount of share buybacks, dividend payments, and other capital distributions, for the past ten years.

(a) Capital and leverage ratios

We maintain robust capital, liquidity and funding positions to ensure that we can support clients' access to credit and capital markets at all points of the economic cycle, including in severely adverse markets.

Our capital adequacy is measured through regulatory capital standards adopted by the Federal Reserve Board ("FRB"). Our capital ratios have remained at very high levels throughout the pandemic. In fact, our capital ratios are the highest among our peers of similar size. Specifically, as of December 31, 2020, our capital ratios were:

- 17.4% Standardized Common Equity Tier 1 ("CET1") ratio
- 19.4% Standardized tier 1 capital ratio
- 21.5% Standardized total capital ratio
- 8.4% Tier 1 leverage ratio
- 7.4% Supplementary Leverage Ratio ("SLR"), calculated in accordance with the FRB's interim final rule in effect as of December 31, 2020

As of December 31, 2018, our capital ratios were:

- 16.9% Standardized CET1 ratio
- 19.2% Standardized tier 1 capital ratio
- 21.8% Standardized total capital ratio
- 8.4% Tier 1 leverage ratio
- 6.5% SLR

(b) Annual Amount of share buybacks, dividend payments, and other capital distributions for the past 10 years.

Year (unless otherwise stated)	Common Stock Dividends (in millions)	Per Share amount (Common)	Preferred Stock Dividends (in millions)	$ Value Common Stock Repurchased as part of Share Repurchase Program (in millions)[1]	Total number of shares as part of Share Repurchase Program (in millions)[2]	Total number of shares (in millions)[3]
2011	$354	$0.20	$292	$0	0	11
2012	$400	$0.20	$97	$0	0	13
2013	$250	$0.20	$271	$350	12	27
2014	$703	$0.35	$311	$900	28	46
2015	$1,096	$0.55	$452	$2,125	59	78
2016	$1,348	$0.70	$468	$3,500	117	133
2017	$1,655	$0.90	$523	$3,750	80	92
2018	$1,930	$1.10	$526	$4,860	97	110
2019	$2,161	$1.30	$524	$5,360	121	135
2020	$2,295	$1.40	$496	$1,347	29	40
Q1 2021	$635	$0.35	$138	$2,135	28	34

[1] Reflects only the repurchase program and excludes shares acquired in satisfaction of tax withholding obligations related to stock-based compensation programs.
[2] Reflects only the repurchase program and excludes shares acquired in satisfaction of tax withholding obligations related to stock-based compensation programs.
[3] Includes both those acquired as part of the share repurchase program and in satisfaction of withholding obligations.

3. The number and location of your bank's branches and how that compares to 10 years ago and 20 years ago.

Morgan Stanley is not a brick-and-mortar bank and does not have any retail branches. As noted above, Morgan Stanley employs approximately 68,000 employees—up from 60,000 employees in 2019.

4. Your bank's approach to offering fair and affordable products and services to the unbanked, including individuals that do not have access to the Internet.

Morgan Stanley recognizes the importance of access to banking services in underserved communities. As we do not have a brick-and-mortar bank ourselves, we believe that the best way for us to help create and maintain access to banking services in underserved communities is to support community banks that operate in or near those communities.

To that end, in 2020 we provided grants and other capital support to three minority-owned depository institutions. Specifically, we gave $5 million grants to each of Industrial Bank in Washington, D.C. and Citizens Trust Bank in Atlanta, Georgia and we provided $14.6 million in grants and other support to our long-time partner, Carver Bancorp, a community development financial institution ("CDFI") headquartered in Harlem, New York. Our support enabled these institutions to strengthen their capital positions so that they could continue to provide financing to their small business and retail clients during the COVID-19 pandemic.

5. **Public enforcement actions taken by a federal or state government since you last testified before the Committee, including any consent orders and settlements against your bank and the number of consumers or investors harmed per order, settlement and action.**

Morgan Stanley has a comprehensive process to manage risk and ensure compliance with applicable laws and regulations. One of our core values is "Do the Right Thing," and we invest in people, resources and controls in support of this core value. Notwithstanding these efforts, from time to time we make mistakes that result in regulatory enforcement.

No regulatory enforcement episode is acceptable, but we learn from our mistakes and we have taken corrective actions in response. Like other large financial institutions, we have been subject to a few enforcement actions over the past few years. United States enforcement actions in excess of $5 million since 2019 include:

- A $5 million settlement with the U.S. Commodity Futures Trading Commission, on September 30, 2020, relating to swap reporting issues, which had no allegations of harm to counterparties or consumers.

- A $5 million settlement with the U.S. Securities and Exchange Commission, on September 30, 2020, regarding the organization of our aggregation units and compliance with Regulation SHO, which had no allegations of harm to counterparties or consumers.

- A $5 million settlement with the U.S. Securities and Exchange Commission, on May 12, 2020, in connection with disclosures and trades related to our wrap free program. The order noted that the Firm remediated the issues, including refunding fees to certain impacted clients.

- A $60 million civil money penalty imposed by the Office of the Comptroller of the Currency in October of 2020, relating primarily to a 2016 hardware decommissioning incident in our Wealth Management business. Impacted clients are notified and offered credit-monitoring services paid for by the Firm.

6. Your bank's capital market activities, including with respect to securities and derivatives, as well as any losses experienced as a result of the failure of Archegos Capital Management.

Morgan Stanley is a major participant in the global capital markets. We serve our clients by providing liquidity and capital through services such as originating, structuring, and executing public and private placement of a variety of securities, including both debt and equity products. We help our clients raise capital and manage their financial positions so that they can remain stable, grow and provide employment opportunities.

We recognize that, as a financial institution, our ability to leverage the financial markets has a significant impact on our society. Thus, if we identify a potentially significant environmental or social risk associated with a transaction, the transaction is escalated to senior management and our Franchise Risk Committee, which can veto new business opportunities and transactions that may conflict with our values. We also seek opportunities to make a positive impact through our business, as discussed in response to questions 9, 10, and 13.

At the same time, we have made significant changes to our own trading over more than a decade. As required by the Volcker Rule, our trading now focuses on making markets and executing trades for our clients, not on trading for our own profit and loss. We do not take risks that could jeopardize the stability of our Firm.

The derivatives markets, and our derivatives trading, have also undergone significant de-risking as a result of the reforms implemented under Dodd-Frank. These reforms include margin and central clearing requirements as well as extensive reporting on derivatives transactions to regulators.

With respect to Archegos, as the week of March 22, 2021 began, Archegos' collateral with Morgan Stanley appeared to be sufficient to meet our margin calls. When, later in the week, it became clear that was not the case, we moved quickly and prudently to limit losses. We liquidated large positions in a series of block trades Friday, March 26 through Sunday, March 28. That resulted in a net loss of $644 million. We then made a management decision to completely de-risk the remaining smaller positions, incurring an incremental loss of $267 million. The loss is disappointing, but has to be set against the backdrop of a strong performance by the Firm overall and by our Equities business.

7. **The extent your bank utilizes forced arbitration clauses in its contracts with consumers, employees, investors and contractors**.

As discussed in 2019, we believe that arbitration provides an opportunity for all sides to receive a fair hearing through a process that is generally more efficient and less costly than litigation. We ensure that information about our arbitration agreements is clearly disclosed and readily available to both prospective employees and customers before they enter into a relationship with us. In addition, our U.S. broker-dealers are FINRA member firms. For many years, FINRA has required that licensed employees arbitrate most non-statutory employment disputes with member firms.

When we made changes to our employee arbitration program in 2015, we provided our employees with detailed information on the program and gave them the opportunity to opt out. New Morgan Stanley hires are also provided an opportunity to opt out of our employee arbitration program.

8. **Your compensation and clawback policies, including the minimum wage you pay employees, how these policies are designed to promote accountability of company executives, and how the compensation of the CEO and other C-suite executives compares to the median compensation of an employee at your bank.**

Morgan Stanley has a robust pay-for-performance philosophy and practice, and is committed to responsible and effective compensation programs. The Compensation, Management Development and Succession ("CMDS") Committee of the Board of Directors, which is comprised entirely of independent directors, continuously evaluates Morgan Stanley's executive compensation to ensure that our approach is consistent with best practices in corporate governance, risk management and regulatory principles.

Over the past decade, we have made significant changes to our executive compensation program to better balance risk with rewards. These changes include: (i) enhancements to the long-term incentive program design by balancing fixed and variable pay, increasing deferrals, increasing the use of equity and performance-based awards and incorporating clawback provisions; (ii) strengthened processes and controls to integrate risk management into our compensation determinations; and (iii) increased board engagement in senior management compensation determinations.

Our executive compensation program, which has continuously evolved over the past 10 years, is designed around the following four key objectives.

1. We compensate for sustainable, long-term performance. We have moved the focus of our executive compensation program away from annual incentive awards and toward an emphasis on both variable annual incentives and performance-vested long-term incentives. Moreover, Morgan Stanley conditions the vesting and payment of long-term incentives on future performance, which is measured against specified financial targets that align with long-term business strategy.

2. We align executive compensation with shareholders' interests. This objective is met by delivering a significant portion of incentive compensation in deferred awards that are subject to cancellation and clawback over a multi-year period. We have significantly reduced the portion of incentive compensation paid in cash. As discussed in more detail below, we have also expanded our clawback provisions. Moreover, the deferred award structure ties a significant portion of executive compensation directly to Morgan Stanley's stock price and encourages ownership by requiring executives to retain equity. Beginning with the 2020 year-end incentive compensation award grants, the Company reduced the group of eligible employees receiving deferred cash-based awards and instead granted more deferred incentive compensation awards solely in the form of restricted stock units. This adjustment to our pay mix increased the use of equity awards, which further aligns the interests of the Company's employees with those of its shareholders.

3. We offer competitive pay levels to support Morgan Stanley's objectives of continuing to attract and retain the most qualified employees in a highly

competitive global environment for talent. We structure incentive awards to include vesting, deferred payment and cancellation provisions that retain employees and protect the Company's and shareholders' interests.

4. In light of regulatory guidance, we have changed our approach to compensation to better balance employee conduct, such as risk taking, with rewards. We structure compensation arrangements to discourage unnecessary or excessive risk-taking that could have a material adverse effect on Morgan Stanley. Over the past decade, we have integrated risk management more directly into our compensation determinations. In addition, there is no automatic vesting and no excise tax protection for deferred compensation upon a change-in-control. Morgan Stanley annually evaluates our compensation programs from a risk perspective and reviews our findings with the CMDS Committee and an independent compensation consultant.

Morgan Stanley's commitment to our performance-based approach is further demonstrated by our four-part CEO pay framework:

1. The Board of Directors sets annual performance priorities at the beginning of the year to guide its assessment of Firm and executive performance. The priorities are set in the context of the Firm's strategic objectives and include both financial and non-financial performance metrics for the Firm and its business segments.

2. At the beginning of each year, the CMDS Committee also establishes the target CEO compensation range and outlines guidelines for the year-end performance assessment. The range is informed by a number of factors, including prior year CEO compensation at peer financial firms.

3. At year-end, the CMDS Committee assesses Company and executive performance, including progress in achieving Morgan Stanley's strategic objectives and annual performance priorities, and the CEO's overall leadership.

4. The CMDS Committee then determines CEO compensation at year-end, based on its assessment of performance and discussion with the Board of Directors. The CMDS Committee determined CEO compensation elements that support the Firm's key compensation objectives.

With respect to the compensation for other Named Executive Officers ("NEOs"), the CMDS Committee evaluates both Firm and individual performance. As with CEO compensation, the CMDS Committee and the Board set performance priorities at the beginning of the year. The performance priorities are based on an assessment made at the beginning of the year in light of the market environment and Morgan Stanley's strategic objectives. The CMDS Committee then considers progress against the performance priorities in making executive compensation determinations at year-end. For 2020, the CMDS Committee reviewed performance priorities in the following areas:

- Firm financial performance;
- Business segment performance;
- Expense Efficiency Ratio and ROTCE;
- Total shareholder return;
- Capital and liquidity strength;
- Firm risk management and controls;
- Firm credit rating;
- Standing with regulators;
- Talent development and diversity progress;
- Board assessment of Firm culture, leadership, strategy, resilience and reputation.

With respect to clawback policies and procedures, in 2008, Morgan Stanley was the first major U.S. bank to enact a clawback provision that exceeded TARP requirements for a portion of year-end compensation. This clawback provision was further enhanced in 2009 to explicitly cover situations where there is (i) a substantial loss on a trading position or other holding or (ii) any loss on a trading position where an employee operated outside the risk parameters applicable to the trading position or other holding if, in either case, such position was a factor in that employee's compensation determination. This provision applied to deferred cash-based awards made to NEOs.

In 2011, we expanded our clawback provisions to apply to all long-term incentive compensation and enhanced our processes for preventing, investigating and addressing circumstances (such as poor risk outcomes, significant losses and improper employee behavior) that could require clawback or cancellation of previously awarded compensation, as well as adjustments to current year compensation.

Deferred incentive compensation awards generally are subject to clawback for, among other things, failure to comply with Morgan Stanley's internal policies, or compliance, ethics or risk management standards, termination for cause and misuse of proprietary or confidential information. Additionally, these awards are subject to clawback if an individual causes the need for a restatement of Morgan Stanley's consolidated financial results, violates Morgan Stanley's global risk management principles, policies or standards or violates an internal risk and control policy involving a subsequent loss. Managers may be held responsible for misconduct by their employees. For Operating Committee members, deferred incentive compensation awards are also subject to clawback if the CMDS Committee determines that the Operating Committee member had significant responsibility for a material adverse outcome for the Firm or any of its businesses or functions.

Throughout the year, employee conduct matters that are escalated through the Company's Global Conduct Risk Program are reviewed to determine whether they present situations that could require clawback or cancellation of previously awarded compensation, as well as downward adjustments to current year compensation. Clawbacks of previously awarded compensation are reviewed quarterly with the Employee Discipline Oversight Committee – a committee of senior management currently composed of the Chief Financial Officer, Chief Legal Officer, Chief Risk

Officer, Chief Audit Officer, Chief Human Resources Officer, and Chief Compliance Officer – and reported to the CMDS Committee.

Regarding risk management, beginning in 2009, the CMDS Committee worked with Morgan Stanley's Chief Risk Officer and the CMDS Committee's independent consultant to evaluate whether Morgan Stanley's compensation arrangements encourage unnecessary or excessive risk-taking and whether risks arising from Morgan Stanley's compensation arrangements are reasonably likely to have a material adverse effect on the Firm. The Chief Risk Officer continues to evaluate any new incentive arrangements for the NEOs.

Moreover, the Global Incentive Compensation Discretion Policy adopted by the CMDS Committee sets forth standards for managers on the use of discretion when making annual compensation decisions and considerations for assessing risk management and outcomes. Further, the Company's control functions conduct a semi-annual review of employee conduct with respect to risk and control matters, and are asked to identify inappropriate behavior that may not be captured through other Company processes. The results of the reviews are reflected in performance feedback and considered in compensation decisions.

As disclosed in our most recent proxy filing, in 2020 the estimated ratio between the CEO's total annual compensation and median annual total compensation for all other employees was 234 to 1, compared to 248 to 1 in 2019.[4] We have about 70,000 employees who perform a wide range of duties; this year our median employee compensation was over $126,000.

[4] As determined consistent with SEC rules.

9. The diversity of the directors of your board and executives that report to the CEO, the policies and practices implemented at your institution to promote diversity and inclusion among your workforce, and the policies to promote the use of diverse contractors, including diverse asset managers, brokers and underwriters, by your institution.

I acknowledge that progress in this area has been slow for us—and we can and should do better. The events of 2020 focused all of us in a way we had not been before and this was the ultimate call to action to make meaningful change.

We believe a diverse workforce is important to Morgan Stanley's continued success and our ability to service our clients. Achieving greater diversity throughout the Firm remains a key priority for the Firm and its management team, and we are working hard to achieve our diversity goals. While we are proud of the gains that we have made, there is still work to be done.

Establishing diverse leadership is essential to bringing greater diversity to the Firm as a whole. While change will not happen overnight, we made some immediate changes, which included calling out Diversity & Inclusion as one of our core values, establishing the Institute for Inclusion to provide outside input on our talent and diversity efforts, and elevating Black leaders, including the addition of two Black Managing Directors to the Firm's Operating Committee.

Diversity at the board level is a significant priority. Half of our Board is gender or ethnically diverse. Diversity in senior management is also critical to achieving our Firm-wide diversity goals. Twenty-one percent of our Operating Committee is ethnically diverse and 21% are women. With respect to our Management Committee, 31% of the members are ethnically diverse and 23% are women. Moreover, every senior manager is required to have a succession plan for his or her senior team members, and part of that plan must include developing a diverse candidate pipeline.

To build a diverse talent pipeline, we use global, targeted recruitment and development programs to hire, retain and promote women and ethnically diverse talent. From 2015 to 2019, we increased campus hires of women globally, and of Black and Hispanic students in the U.S., by 9% each—to 44% and 25% of all recruits, respectively. We note that U.S. Black Managing Director representation is up 24% from 34 to 42 since year-end 2019. And U.S. Black officer representation is up 29% from 535 to 689 since year-end 2019. In both cases, this growth was driven by a continued focus on hiring and providing promotion opportunities for our talent. And among employees in our most recent Managing Director class, 35% were women and over 25% were ethnically diverse, as we continued to increase their representation. While we have more to do, we are making progress and are committed to continuing to do so.

Our Global Diversity & Inclusion team drives the Firm's strategy across four key pillars: accountability, representation, advancement and culture. In 2020, we published our first annual Diversity and Inclusion Report, which represents the Firm's commitment to our diversity and inclusion strategy, priorities and goals, and provides comprehensive disclosure and information on the composition of our workforce, our progress to date and our efforts and initiatives in advancement and outreach. The report also includes our EEO-1 data. By providing data about our workforce and diversity and inclusion efforts, we are enabling our stakeholders to monitor and track our progress.

Additionally, for the first time, we published diversity and inclusion data in our SEC Annual Report on Form 10-K for the year ended December 31, 2020. Key data points include:

- 39% of our global and U.S. employees are women;
- 26% of our global officers are women;
- 30% of our U.S. employees are diverse;
- 23% of our U.S. officers are diverse.

Morgan Stanley is committed to providing a work environment that promotes diversity and inclusion, where everyone is treated with dignity and respect. Each of us must act, at all times, with due consideration towards our co-workers, treating others as we would want to be treated. We aim to provide our employees with the best opportunities to realize their potential. Our policies promote equal employment opportunity without discrimination or harassment on the basis of race, color, religion, creed, age, sex, gender, gender identity or expression, sexual orientation, national origin, citizenship, disability, marital, civil partnership or union status, pregnancy, paid parental or maternity leave, veteran or military service status, genetic information or any other characteristic protected by law.

We understand the importance of explicit support and the purposeful participation that is required to effect change. To help accelerate our own efforts, we recently launched the Morgan Stanley Institute for Inclusion ("IFI") guided by an independent Advisory Board. I chair the IFI Board and it includes three of our current Firm-wide Board members. The IFI is focused on catalyzing an integrated and transparent diversity, equity, and inclusion strategy to deliver the full potential of Morgan Stanley and drive meaningful change within the Firm and beyond. We also recently announced the addition of a new core value, Commit to Diversity and Inclusion, to make explicit our commitment to cultivating and supporting a diverse workforce and a culture of belonging across the Firm.

With respect to suppliers, our supplier diversity program, currently a $350 million spend, seeks out minority-owned businesses to supply hundreds of our offices around the globe. We also make investments in diverse businesses, including our recent $100 million investment in Lafayette Square, a minority-owned holding company focused on flexible capital investments in sustainable housing and small businesses that are owned by women and people of color. We are also seeking to expand our wealth management services into new and diverse target markets and have created the Wealth Management Racial Equity Toolkit*,* a guide to racial equity investing.

Moreover, our Multicultural Client Strategy Group helps develop the Firm's strategy to address the significant market inefficiency that limits access to capital by female and multicultural technology entrepreneurs and small business owners. One such initiative is our Multicultural Lab, which supports the growth of tech entrepreneurs of color and women by providing the tools, resources and access to capital they need to succeed. Now in its fourth year, the Lab has invested in 31 companies with a multicultural or woman founder, co-founder, or C-suite executive.

10. Investments, loans, and partnerships with minority depository institutions (MDIs) and community development financial institutions (CDFIs) over the past ten years.

We deploy our Community Reinvestment Act ("CRA") resources with a focus on four areas:

1. Multifamily affordable rental housing;
2. Healthy communities;
3. Small business and economic development;
4. Access to capital for CDFIs.

In the last ten years, we have supported the creation of 145,000 affordable housing units. We have made $24 billion in community development loans and investments, including investing $5.5 billion in collaboration with CDFIs to further advance economic opportunity in underserved neighborhoods.

Our recent $1 billion Social Bond, issued in 2020, aims to advance this work by directing capital to projects that house individuals and families with low- or moderate-incomes across the United States, many of whom are struggling to meet housing costs in the pandemic-affected economy.

Following our acquisition of E*TRADE, we now have four banks that are subject to the CRA. In connection with that transaction, we announced a four-year, $15 billion plan that expands our community development activities, so that our new program will be greater than the sum of the legacy Morgan Stanley and E*TRADE programs.

The CRA requires our banks to focus their community development efforts on their home geographies (the Salt Lake City, New York, and Washington, D.C. metropolitan areas), but we also operate in other areas to the extent possible. One hundred percent of our affordable housing private equity also includes funding for quality of life issues, which can be access to broadband, assistance in resident access to EITC, after school education, and senior aging-in-place healthcare services.

To that end, in 2020 we provided grants and other capital support to three minority-owned depository institutions: we gave $5 million grants to each of Industrial Bank in Washington, D.C. and Citizens Trust Bank in Atlanta, Georgia, and we provided $14.6 million in grants and other support to our long-time partner, Carver Bancorp, a CDFI headquartered in Harlem, New York.

11. Your bank's approach to cybersecurity and protecting consumer data.

As discussed in the 2019 hearing, cybersecurity is also a top priority for Morgan Stanley. Our long-standing commitment to safeguard client information is essential to our goal to be the leading choice for financial services. Protecting the confidentiality and security of client information has always been an integral part of how we conduct our business worldwide. Today, like our peers and firms in many other industries, we must be extraordinarily vigilant on a constant basis, and we defend against numerous attacks every day and learn from attacks on others, whether in the financial industry or elsewhere.

We recognize the important role we play in protecting our financial system. For that reason, we work closely with our peers, some of whom are with me today, our government partners, and our vendors to gather and share intelligence that helps us strengthen our collective defenses. We also understand that upholding the trust our clients place in us to protect their data requires understanding those who would attack us and what they are after. That's why we have brought together our cybersecurity, information security, and fraud programs to face this common threat as a single team. And that is why we have staffed that team with professionals that bring to bear both industry and government experience, and who, as a result, understand the threats we face and the mindset of those who would do us harm.

Morgan Stanley employs multiple layers of security controls and practices to protect the personal information of its clients and employees, its proprietary data, its networks and other assets. We have in place physical, technical and procedural safeguards for personal information. We protect personal information from unauthorized access and use, instituting security measures – such as computer safeguards, secured files and buildings – that comply with cybersecurity laws and regulations in the United States and other countries in which we operate.

Cybersecurity risk is overseen by the Board as well as the Operations and Technology Committee. The Operations and Technology Committee has primary responsibility for oversight of information and cybersecurity operations. It receives reports at quarterly meetings from senior officers in the Information and Technology Department and the Firm Risk Management Department. The quarterly reports include information such as security, fraud and cybersecurity risk, as well as the steps that management has taken to monitor and control such risk. The reports also provide updates on Morgan Stanley's cybersecurity program, the external threat environment and Morgan Stanley's programs to address and mitigate the risks associated with the evolving cybersecurity threat environment.

The Operations and Technology Committee also receives an annual independent assessment of key aspects of the Company's cybersecurity program from an external party and holds joint meetings with the Audit Committee and Risk Committee. The Chair of the Operations and Technology Committee regularly reports to the full Board on cybersecurity risks. Senior management also discusses cybersecurity developments with the Chairs of the Operations and Technology Committee and the Risk Committee between Board and committee meetings, as necessary. Moreover, the Board or a relevant Board committee reviews and approves our cybersecurity policies at least annually.

12. Your bank's approach to and utilization of emerging technology, including artificial intelligence, machine learning, distributed ledger technology, and digital assets (including cryptocurrency).

(a) Artificial Intelligence and Machine Learning

Morgan Stanley recognizes the potential benefits of artificial intelligence ("AI") and has implemented AI and Machine Learning ("ML") to enhance its fraud mitigation program, monitor electronic communications to mitigate risk and comply with regulatory obligations. We recognize that there are also potential risks and we have implemented an AI/ML governance framework to mitigate those risks. We are also enhancing our framework to ensure that our use of AI/ML considers ethical considerations, including reducing bias and discrimination.

Cloud computing, artificial intelligence/machine learning and other emerging technologies bring significant potential benefits for the financial services industry and its customers. We are always evaluating new technologies to determine how to continue to deliver value to our customers with new and improved products and services in a safe and secure manner.

Accordingly, we are studying new encryption technologies with a goal of making the security of our business "quantum-proof" by the time quantum becomes broadly available while enabling our clients and the investing public to take advantage of the huge benefits that expanded computing capacity has to offer.

(b) Distributed Ledger Technology and Digital Assets (Including Cryptocurrency)

Blockchain technology, which can be utilized separately from the exchange of digital assets, presents potential opportunities to increase the speed of financial transactions across our business and we continue to evaluate how to leverage those technologies to enhance our services and overall efficiency, while ensuring we have the appropriate amount of security. However, we are still in the early stages of exploring the use of such technologies within both our infrastructure and businesses.

This is an evolving area, both from a business and regulatory perspective. Our clients are seeking increased exposure to the sector and we are being thoughtful on how to provide those services. We have been conservative in the marketplace. We have sought to develop products and platforms that provide our clients with appropriate access to these markets, while minimizing the risk that volatility in the crypto markets presents. However, we do not currently offer general, broad-based access to Bitcoin or other digital asset trading. We are continuously investing in our risk management capabilities in this area as we assess future opportunities.

13. Your bank's approach to climate risk, reputational risk, and other risks, including with respect to any products or services provided to gun manufacturers, and private prisons, and the fossil fuel industry, as well as individuals and groups that support any form of human trafficking, terrorism, and the attempted insurrection on January 6, 2021.

(a) Bank's approach to reputational risk, and other risks, including with respect to any products or services provided to gun manufacturers and private prisons.

Whenever we consider a potential client or transaction, we closely examine all the risks involved, including risks to the environment, communities and human rights. We give serious consideration to how we do business in specific sectors that raise significant social issues. Sectors or activities with potential for heightened environmental and social risk undergo enhanced diligence and may be referred to our Franchise Committees or senior management for review.

(b) Bank's approach to climate risk, including with respect to any products or services provided to the fossil fuel industry.

Recognizing the important role government plays in shaping policy to address these challenges, Morgan Stanley has been very public about the urgent need to address the climate challenge, including expressing support for the United States to stay in the Paris Climate Agreement.

Morgan Stanley, along with many of our peers and clients, signed a December 2020 letter convened by the Center for Climate and Energy Solutions calling on then President-elect Biden and the new Congress to "work together to enact ambitious, durable, bipartisan climate solutions."

Morgan Stanley is a member of the Steering Committee of the Partnership for Carbon Accounting Financials ("PCAF"), which is developing a methodology to track portfolio emissions for financing and lending activities across all sectors and counterparties. PCAF's methodology will help Morgan Stanley as we identify, assess and manage climate-related risks across our business. It will also help us identify client-oriented solutions to these issues as well.

Effectively addressing climate change will take coordinated efforts between the private sector, civil society and government, and we are committed to being part of the solution. We have been publicly on record as supporting a price on carbon as one way to leverage the power of markets to address climate change. We work with clients and customers around the globe to facilitate the transition to a low-carbon economy. We are a long-standing leader in leveraging capital markets to help scale sustainability solutions. In 2009, during the financial crisis, we created the Global Sustainable Finance ("GSF") Group to drive the Firm's sustainability strategy across our Firm and within our businesses.

We focus on climate and Environmental, Social and Governance ("ESG") matters because our clients demand it, because of the potential of these issues to create risks to businesses, and the related opportunity to drive sustainable solutions for our clients. Addressing the climate challenge and supporting our clients are simply good business practices.

In September of last year, Morgan Stanley was the first large U.S. financial institution to commit to net-zero financed emissions by 2050. Alongside Citigroup and Bank of America, we were the first American banks to join the Net Zero Banking Alliance announced last month. We recently announced an updated commitment to mobilize $1 trillion in capital, $750 billion of which will support low-carbon solutions by 2030. We have set a goal to achieve carbon neutrality for our global operations by 2022. As part of this goal, we will source 100% of our global energy needs from renewable energy.

Morgan Stanley is also a leader in sustainable finance, which focuses on making investments that aim to achieve market-rate financial returns while considering positive social and/or environmental impacts. In 2013, we launched the Institute for Sustainable Investing to help find innovative ways to drive capital toward sustainable development solutions. The Institute's Advisory Board, comprised of prominent leaders from business, academia and leading non-governmental organizations, guides our work and strategic priorities.

In 2017, we were the first U.S. financial institution to appoint a Chief Sustainability Officer. We have been working for years with our Wealth Management clients to align their portfolios with their values, including concerns about the impact of climate change.

Our Investing with Impact platform allows our Wealth Management clients to invest according to their sustainability values. For example, they can invest in funds that are specifically focused on financing innovations to address the challenges of climate change. To date, clients have invested more than $55 billion through this platform. We led the first ever corporate green bond offering and led approximately $65 billion green, social and sustainability bonds in 2020, and nearly $150 billion since 2013.

We see an opportunity to address climate change in working with our clients, employees, investors and other stakeholders. Climate change considerations are integrated into the Firm's risk management and governance processes. We have in place an enhanced due diligence process for high-carbon sectors and, when considering oil and gas transactions, we conduct enhanced due diligence and are prudent in the transactions we undertake. We also continue to engage clients to understand, and help them with, their diversification strategies in high-carbon sectors.

(c) Bank's approach to individuals and groups that support any form of human trafficking, terrorism, and the attempted insurrection on January 6, 2021.

Morgan Stanley is committed to being a responsible corporate citizen, respecting human rights and supporting the protection and advancement of human rights. We have an enhanced due diligence approach for human rights, including with regard to Indigenous People and modern slavery concerns. Senior management and our Franchise Committee assess specific situations that raise significant human rights issues.

Moreover, while as a policy, Morgan Stanley, as a company, does not make corporate political contributions or any independent political expenditures, Morgan Stanley maintains a political action committee comprised of voluntary contributions solely from our employees. Following the events of the 2020 election, Morgan Stanley PAC chose to temporarily suspend contributions to the group of 146 Members of Congress and U.S. Senators for the current Congress.

14. How your institution has generally changed its banking policies, procedures, services, risk management, investment and lending practices since you last testified before the Committee, and specifically how the requested items above have changed since your institution's last testimony before the Committee unless otherwise indicated.

Changes since my 2019 testimony are addressed throughout the responses to Questions 1-13.