

Morgan Stanley International Limited Group

Pillar 3 Regulatory Disclosures Report

As at 31 March 2023

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1. Overview and Key Metrics

The principal activity of Morgan Stanley International Limited (“MSI”) together with its subsidiaries (the “MSI Group”) is the provision of financial services to corporations, governments and financial institutions. There have not been any significant changes in the MSI Group’s principal activities during the first quarter of 2023 and no significant change is expected.

As at 31 March 2023, Morgan Stanley & Co. International plc (“MSIP”) and Morgan Stanley Europe SE (“MSESE”) are considered large subsidiaries within the MSI Group. MSIP is authorised by the Prudential Regulation Authority (“PRA”) and regulated by the PRA and Financial Conduct Authority (“FCA”). MSESE and the Morgan Stanley Europe Holding SE Group (“MSEHSE Group”), of which MSESE is a subsidiary, are under the direct supervision of the European Central Bank (“ECB”) under the Single Supervisory Mechanism.

The Pillar 3 disclosures as at 31 March 2023 are prepared on the basis of the consolidated situation of the MSI Group. In addition, certain disclosures are required for MSIP as a large listed subsidiary of MSI Group, and MSESE as a large non-listed subsidiary of MSI Group. MSESE is able to meet its capital requirements by incorporating its subsidiary Morgan Stanley Bank AG (“MSBAG”) on an individual consolidated basis (“MSESE Consol”). As a result, MSESE Consol is considered the large subsidiary for disclosure purposes.

Directors Responsibility Statement

I confirm that I have taken all reasonable measures to ensure that the information included in this disclosure complies to the best of my knowledge with section 4 of the PRA rulebook on Disclosure (CRR) and has been prepared in accordance with established formal policies and internal processes, systems and controls.

Anthony Mullineaux

Chief Financial Officer

Morgan Stanley International Limited

Key Metrics

Table 1: Key Metrics (UK KM1) – MSI Group						
\$MM		a	b	c	d	e
MSI Group^{1,4}		Q1'23	Q4'22	Q3'22	Q2'22	Q1'22
1 Available own funds						
2 Common Equity Tier 1 (“CET1”) capital		22,926	23,038	21,526	22,055	21,614
3 Tier 1 (“T1”) capital		27,226	27,338	25,826	26,355	25,114
Total capital		34,177	35,123	33,865	34,680	31,226
4 Risk-weighted exposure amounts						
Total risk-weighted exposure amount		163,350	160,504	165,740	166,499	177,213
5 Capital ratios (as a percentage of risk-weighted exposure amount)						
6 Common Equity Tier 1 ratio (%)		14.04%	14.35%	12.99%	13.25%	12.20%
7 Tier 1 ratio (%)		16.67%	17.03%	15.58%	15.83%	14.17%
Total capital ratio (%)		20.92%	21.88%	20.43%	20.83%	17.62%
Additional own funds requirements based on Supervisory Review and Evaluation Process (“SREP”) (as a percentage of risk-weighted exposure amount)						
UK 7a Additional CET1 SREP requirements (%)		1.68%	1.68%	1.68%	1.68%	1.43%
UK 7c Additional AT1 SREP requirements (%)		0.56%	0.56%	0.56%	0.56%	0.48%
UK 7d Additional Tier 2 (“T2”) SREP requirements (%)		0.75%	0.75%	0.75%	0.75%	0.63%
Total SREP own funds requirements (%)		10.99%	10.99%	10.99%	10.99%	10.54%
8 Combined buffer requirement (as a percentage of risk-weighted exposure amount)						
UK 8a Capital conservation buffer (%)		2.50%	2.50%	2.50%	2.50%	2.50%
9 Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)		-	-	-	-	-
UK 9a Institution specific countercyclical capital buffer (%)		0.34%	0.32%	0.07%	0.05%	0.04%
10 Systemic risk buffer (%)		-	-	-	-	-
UK 10a Global Systemically Important Institution buffer (%)		-	-	-	-	-
11 Other Systemically Important Institution buffer		-	-	-	-	-
UK 11a Combined buffer requirement (%)		2.84%	2.82%	2.57%	2.55%	2.54%
12 Overall capital requirements (%)		13.83%	13.81%	13.56%	13.54%	13.08%
CET1 available after meeting the total SREP own funds requirements (%)		7.85%	8.17%	6.81%	7.07%	6.27%
Leverage ratio						
13 Total exposure measure excluding claims on central banks		480,781	454,835	473,219	464,889	501,433
14 Leverage ratio excluding claims on central banks (%)		5.66%	6.01%	5.46%	5.67%	5.01%
Additional leverage ratio disclosure requirements²						
14a Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)		5.66%				
14b Leverage ratio including claims on central banks (%)		5.44%				
Average total exposure measure including claims on central banks ³		497,535				
Average total exposure measure excluding claims on central banks ³		479,088				
14c Average leverage ratio excluding claims on central banks (%)		5.70%				
14d Average leverage ratio including claims on central banks (%)		5.48%				
14e Countercyclical leverage ratio buffer (%)		0.12%				
15 Liquidity Coverage Ratio						
UK 16a Total high-quality liquid assets (“HQLA”) (Weighted value - average)		54,640	51,890	50,606	49,145	49,196
UK 16b Cash outflows - Total weighted value		84,181	83,946	84,731	84,886	86,160
16 Cash inflows - Total weighted value		54,985	56,905	59,418	61,239	61,375
17 Total net cash outflows (adjusted value)		29,316	27,161	25,430	23,765	24,785
Liquidity coverage ratio (%)		188.73%	193.54%	201.08%	206.79%	198.49%
Net Stable Funding Ratio⁵						
18 Total available stable funding		110,383	110,085			
19 Total required stable funding		96,608	95,602			
20 NSFR ratio (%)		114.27%	115.16%			

1. The MSI Group is required to maintain a minimum ratio of Own Funds to Risk Weighted Assets (“RWAs”) and Leverage. As at 31 March 2023, the MSI Group is in compliance with the PRA capital requirements

2. Based on the guidance provided by the PRA under PS21/21, MSI Group, a Leverage Ratio Requirements (“LREQ”) entity, is subject to additional leverage ratio disclosure requirements from 1 January 2023.

3. Average total exposure measure including/excluding claims on central banks are included in key metrics to comply with the quarterly disclosure requirements.

4. From Q3'22, the calculation of Liquidity Coverage Ratio (“LCR”) has changed to include an average of 12-month data points instead of an average Total HQLA over Total net cash outflows.

5. MSI Net Stable Funding Ratio (“NSFR”) is computed as a trailing average of the last four spot quarter end positions.

MSI Group’s own funds decreased during the quarter due to a Tier 2 (“T2”) capital redemption and an increase in deductions. The leverage ratio decreased during the quarter by 0.35% due to an increase in leverage exposure and a decrease in Tier 1 (“T1”) capital. The average leverage ratio was higher by 0.04% due to lower average exposures over the quarter partially offset by higher average T1 Capital.

MSIP Leverage Ratio

\$MM		a	b	c	d	e
MSIP		Q1'23	Q4'22	Q3'22	Q2'22	Q1'22
Leverage ratio						
13	Total exposure measure excluding claims on central banks	440,032	416,138	436,918	427,375	461,429
14	Leverage ratio excluding claims on central banks (%)	5.03%	5.34%	4.91%	5.05%	4.41%
Additional leverage ratio disclosure requirements¹						
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	5.03%				
14b	Leverage ratio including claims on central banks (%)	4.97%				
	Average total exposure measure including claims on central banks ²	443,251				
	Average total exposure measure excluding claims on central banks ²	438,892				
14c	Average leverage ratio excluding claims on central banks (%)	5.05%				
14d	Average leverage ratio including claims on central banks (%)	5.00%				
14e	Countercyclical leverage ratio buffer (%)	0.12%				

1. Based on the guidance provided by the PRA under PS21/21, MSIP, a LREQ entity, is subject to additional leverage ratio disclosure requirements from 1 January 2023.

2. Average total exposure measure including/excluding claims on central banks are included in key metrics to comply with the quarterly disclosure requirements.

The leverage ratio decreased during the quarter by 0.31% due to an increase in leverage exposure and decrease in T1 capital. The average leverage ratio was higher by 0.02% due to lower average exposures over the quarter partially offset by higher average T1 Capital.

Basis of Consolidation

The MSI Group completes its prudential consolidation in compliance with PRA rulebook, with all entities fully consolidated. The basis of consolidation for prudential purposes is materially the same as consolidation for accounting purposes.

This disclosure is prepared for the MSI Group, rather than on an individual basis for each regulated entity, as permissible under the PRA rulebook. As noted above, the most significant subsidiaries of the MSI Group are MSIP and MSESE Consol, the results of which are material to the MSI Group. This disclosure comprehensively conveys the risk profile of the MSI Group.

Morgan Stanley Group

The MSI Group's ultimate parent undertaking and controlling entity is Morgan Stanley, a Delaware corporation which, together with its consolidated subsidiaries, form the Morgan Stanley Group. Morgan Stanley is a "Financial Holding Company" as defined by the Bank Holding Company Act of 1956, as amended, and is subject to regulation and oversight of the Board of Governors of the Federal Reserve System.

The MSI Group is a wholly owned sub-group of the Morgan Stanley Group. Whilst the MSI Group is a material sub-group, the information disclosed in this document is not necessarily indicative of the Morgan Stanley Group as a whole, nor is it comprehensively representative of the Morgan Stanley Group's activity in any particular region. Investors, stakeholders, creditors or other users seeking information on capital adequacy, liquidity, risk exposure and risk management policies should consult the public disclosures of Morgan Stanley Group.

Details of the latest Morgan Stanley Group Pillar 3 disclosure can be accessed at <http://www.morganstanley.com/about-us-ir/pillar-us>. Details of the latest Morgan Stanley Group LCR disclosure can be accessed at <https://www.morganstanley.com/about-us-ir/lcr-disclosures-us>.

Morgan Stanley is listed on the New York Stock Exchange and is required, by the US Securities and Exchange Commission ("SEC"), to file public disclosures, including Annual 10-K Report and Quarterly 10-Q Report. These can be accessed at <https://www.morganstanley.com/pub/content/msdotcom/en/about-us-ir/sec-filings>.

Additional Regulatory Supervision

As a provider of services to global clients, MSIP and MSESE, are registered with the SEC as a Securities Based Swap Dealer (“SBSD”). MSIP is complying with home country capital requirements in lieu of SEC capital requirements pursuant to applicable substituted compliance rules. Pursuant to interim no-action relief as of year end 2022 and then applicable substituted compliance rules with effect from 1 January 2023, MSESE is also complying with home-country capital requirements in lieu of SEC capital requirements.

MSIP, MSESE and Morgan Stanley Bank International Limited (“MSBIL”) are also provisionally registered with the Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer. The CFTC are developing specific requirements to allow provisionally registered non-bank swap dealers to meet CFTC capital requirements by reference to local prudential standards. This work is country specific with a draft proposal for the UK and Germany still to be published. The provisional status exists until rules are finalised whereby, pursuant to interim no-action relief, the entities are currently complying with home-country capital requirements in lieu of CFTC capital requirements.

These swap dealer registrations provide a comprehensive regulatory framework applicable to the MSI Group’s US-related swap and security-based swap dealer activities.

2. Regulatory Frameworks

Regulatory Overview

Basel Committee on Banking Supervision (“BCBS”) sets the standard for international banking prudential regulation in a series of accords (“Basel Accords”). It is a forum for regular cooperation on the supervision of the banking system and is made up of national banks and supervisory authorities from 28 countries. The Basel Accords are not directly applicable legislation, and they apply only to internationally active banks. The Basel Accords have been updated a number of times, most recently through a series of reforms known collectively as Basel III. The Basel Accords are implemented in the United Kingdom (“UK”) via the PRA Rulebook including retained European Union (“EU”) Law under the European Union (Withdrawal) Act 2018. This includes the Capital Requirements Regulation (“CRR”) as amended but also other technical standards issued by EU bodies, such as the European Banking Authority (“EBA”), that were in place as at 31 December 2020.

The Basel Accords are implemented in the EU through the CRR and the Capital Requirements Directive (“CRD”) as well as standards issued by the EBA and the ECB. These regulations and technical standards continue to be relevant for EU subsidiaries of the MSI Group.

The framework consists of three “Pillars”:

- Pillar 1 – Minimum capital and liquidity requirements: defines rules for the calculation of credit, market, operational and liquidity risk;
- Pillar 2 – Supervisory review process: including a requirement for firms to undertake an Internal Capital Adequacy Assessment (“ICAAP”) and Internal Liquidity Adequacy Assessment (“ILAAP”);
- Pillar 3 – Market discipline: requires expanded disclosures to allow investors and other market participants to understand capital and liquidity adequacy, particular risk exposures and risk management processes of individual firms.

Pillar 3 Disclosure

MSI Group Pillar 3 disclosures are prepared in accordance with the requirements of section 4 of the PRA Rulebook on Disclosure (CRR) applicable to CRR firms.

Further details on MSI Group and its large subsidiaries can be found in the annual Pillar 3 disclosure that can be accessed at: <https://www.morganstanley.com/about-us-ir/pillar-uk>.

Further details on the MSEHSE Group can be found in their Pillar 3 disclosures that can be accessed at: <https://www.morganstanley.com/about-us-ir/pillar-eu.html>.

3. Total Loss-Absorbing Capacity

The MSI Group is subject to internal Total Loss Absorbing Capacity (“TLAC”) requirements under the CRR. These requirements are designed to enhance the resilience of the financial system by ensuring firms have sufficient capital and eligible liabilities to absorb losses and recapitalize in resolution. As at 31 March 2023, the minimum capacity requirements were set at 18% of RWAs and 6.75% of leverage exposure, scaled at 90% for both groups as material subsidiaries, on a consolidated basis, of a non-UK/non-EU Global Systemically Important Institution (“G-SII”).

Morgan Stanley Group’s preferred resolution strategy is a Single Point of Entry (“SPOE”) strategy. Further information on the resolution strategy can be found in Morgan Stanley Group Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. The MSI Group TLAC key metrics are provided in Table 3.

Table 3: TLAC Key Metrics – MSI Group

\$MM

MSI Group¹	Q1'23	Q4'22	Q3'22	Q2'22	Q1'22
Total loss absorbing capacity (“TLAC”) available	42,933	44,090	42,054	42,608	41,193
Total RWAs at the level of the resolution group	163,350	160,504	165,740	166,499	177,213
TLAC as a percentage of RWA (row 1/row2) (%)	26.28%	27.47%	25.37%	25.59%	23.2%
Leverage ratio exposure measure at the level of the resolution group	480,781	454,835	473,219	464,889	501,433
TLAC at a percentage of leverage ratio exposures measure (row1/row4) (%)	8.93%	9.69%	8.89%	9.17%	8.2%

1. As at 31 March 2023, the MSI Group is in compliance with the TLAC requirements.

The decrease in MSI Group’s TLAC available in Q1’23 was primarily driven by T2 redemption.

4. Capital Requirements and RWAs

Table 4 summarises RWAs and Total Own Funds Requirements (“TOFR”) for MSI Group and MSIP by risk type. MSI Group and MSIP calculate Pillar 1 capital requirements as 8% of RWAs in accordance with CRD.

\$MM		MSI Group			MSIP		
		a	b	c	a	b	c
		RWAs Q1'23	RWAs Q4'22	TOFR Q1'23	RWAs Q1'23	RWAs Q4'22	TOFR Q1'23
1	Credit risk (excluding CCR)	14,041	13,365	1,123	9,313	9,314	745
2	Of which the standardised approach	3,582	3,479	287	1,943	2,237	155
3	Of which the foundation IRB (“FIRB”) approach	6,544	6,297	523	3,399	3,374	272
4	Of which slotting approach	-	-	-	-	-	-
UK 4a	Of which equities under the simple risk weighted approach ¹	3,915	3,589	313	3,971	3,703	318
5	Of which the advanced IRB (“AIRB”) approach	-	-	-	-	-	-
6	Counterparty credit risk – CCR	61,996	57,991	4,959	54,042	50,566	4,324
7	Of which the standardised approach	10,950	10,204	876	10,507	9,840	841
8	Of which internal model method (“IMM”)	26,544	25,782	2,123	22,082	21,418	1,767
UK 8a	Of which exposures to a CCP	1,409	893	113	876	702	70
UK 8b	Of which credit valuation adjustment – CVA	17,517	16,344	1,401	15,124	13,969	1,210
9	Of which other CCR	5,576	4,768	446	5,453	4,637	436
15	Settlement risk	70	412	6	68	405	5
16	Securitisation exposures in the non-trading book (after the cap)	3,160	2,940	253	3,154	2,935	252
17	Of which SEC-IRBA approach	-	-	-	-	-	-
18	Of which SEC-ERBA (including IAA)	808	773	65	803	768	64
19	Of which SEC-SA approach	-	-	-	-	-	-
UK 19a	Of which 1250%/ deduction	2,352	2,167	188	2,351	2,167	188
20	Position, foreign exchange and commodities risks (Market risk)	64,074	65,833	5,126	46,933	49,162	3,755
21	Of which the standardised approach	14,612	14,409	1,169	6,844	6,785	548
22	Of which IMA	49,462	51,424	3,957	40,089	42,377	3,207
UK 22a	Large exposures	4,652	4,606	372	2,402	1,550	192
23	Operational risk	15,357	15,357	1,229	10,807	10,807	865
UK 23a	Of which basic indicator approach	15,357	15,357	1,229	10,807	10,807	865
UK 23b	Of which standardised approach	-	-	-	-	-	-
UK 23c	Of which advanced measurement approach	-	-	-	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)¹	661	637	53	723	704	58
29	Total	163,350	160,504	13,068	126,719	124,739	10,138

1. Equity exposures subject to risk weight 1250% has been included under “Of which equities under the simple risk weighted approach” for MSI Group and MSIP.

Over the first quarter, RWAs increased primarily driven by counterparty credit risk due to market movements.

Table 5 summarises the movements of RWAs for MSI Group and MSIP's credit risk exposures under the IRB approach.

Table 5: RWA flow statements of credit risk exposures under the IRB approach (UK CR8) – MSI Group and MSIP

	a	a
	MSI Group RWAs	MSIP RWAs
1 RWA as at the end of the previous reporting period¹	6,297	3,374
2 Asset size (+ / -)	445	199
3 Asset quality (+ / -)	(198)	(174)
4 Model updates (+ / -)	-	-
5 Methodology and policy (+ / -)	-	-
6 Acquisitions and disposals (+ / -)	-	-
7 Foreign exchange movements (+ / -)	-	-
8 Other (+ / -)	-	-
9 RWA as at the end of the reporting period	6,544	3,399

1. Previous reporting period was Q4'22.

The increase in RWAs is primarily driven by off balance sheet loans and cash.

Table 6 summarises movements of RWAs for MSI Group and MSIP's CCR exposures under IMM.

Table 6: RWA flow statements of CCR exposures under the IMM (UK CCR7) – MSI Group and MSIP

	a	a
	MSI Group RWAs	MSIP RWAs
1 RWA as at the end of the previous reporting period¹	25,782	21,418
2 Asset size	1,240	1,206
3 Credit quality of counterparties	(478)	(542)
4 Model updates (IMM only)	-	-
5 Methodology and policy (IMM only)	-	-
6 Acquisitions and disposals	-	-
7 Foreign exchange movements	-	-
8 Other	-	-
9 RWA as at the end of the current reporting period	26,544	22,082

1. Previous reporting period was Q4'22.

The increase in IMM RWAs is primarily due to business activity and market movements within OTC derivatives.

Table 7 summarises the key drivers of RWAs/TOFR for MSI Group and MSIP's market risk exposures under the IMA.

Table 7: RWA flow statements of market risk exposures under the IMA (UK MR2-B) – MSI Group and MSIP							
\$MM	a	b	c	d	e	f	g
	VaR	SVaR	IRC	Comprehensive risk measure	Other⁴	Total RWAs	TOFR
MSI Group							
1 RWAs at previous period end¹	8,141	14,657	5,361	4	23,261	51,424	4,114
1a Regulatory adjustment ²	(5,241)	(10,330)	(1,202)	(4)	(12,866)	(29,643)	(2,372)
1b RWAs at the previous quarter-end (end of the day)	2,900	4,327	4,159	-	10,395	21,781	1,742
2 Movement in risk levels	19	985	(155)	1	232	1,082	87
3 Model updates/changes	-	-	-	-	6	6	-
4 Methodology and policy	-	-	-	-	-	-	-
5 Acquisitions and disposals	-	-	-	-	-	-	-
6 Foreign exchange movements	6	23	17	-	24	70	6
7 Other ³	(31)	(166)	(37)	(1)	(71)	(306)	(24)
8a RWAs at the end of the disclosure period (end of the day)	2,894	5,169	3,984	-	10,586	22,633	1,811
8b Regulatory adjustment ²	5,323	8,982	2,400	-	10,124	26,829	2,146
8 RWAs at the end of the disclosure period	8,217	14,151	6,384	0	20,710	49,462	3,957
MSIP							
1 RWAs at previous period end¹	7,025	11,589	4,557	4	19,202	42,377	3,390
1a Regulatory adjustment ²	(4,398)	(8,325)	(1,187)	(4)	(10,572)	(24,486)	(1,959)
1b RWAs at the previous quarter-end (end of the day)	2,627	3,264	3,370	-	8,630	17,891	1,431
2 Movement in risk levels	(27)	982	(316)	1	224	864	70
3 Model updates/changes	-	-	-	-	6	6	-
4 Methodology and policy	-	-	-	-	-	-	-
5 Acquisitions and disposals	-	-	-	-	-	-	-
6 Foreign exchange movements	-	-	-	-	-	-	-
7 Other ³	(152)	(166)	(38)	(1)	(71)	(428)	(34)
8a RWAs at the end of the disclosure period (end of the day)	2,448	4,080	3,016	-	8,789	18,333	1,467
8b Regulatory adjustment ²	4,551	6,890	2,151	-	8,164	21,756	1,740
8 RWAs at the end of the disclosure period	6,999	10,970	5,167	0	16,953	40,089	3,207

1. Previous reporting period was Q4'22.

2. Regulatory adjustments accounts for the difference between the RWAs calculated based on the end-of-day position, compared with the RWAs calculated based on the 60-day average position in the case of VaR / SVaR and 12-week average position in the case of IRC and CRMe. The regulatory adjustments also account for the multiplication factors (m_c) and (m_s), per Article 366 of the CRR, for the VaR, SVaR and Other respectively.

3. Other (flow driver) represents low impact data and implementation changes including time series updates and periodic parameter updates to the respective models.

4. Other (risk measure) represents Risks Not in VaR ("RNIV").

Over the first quarter of 2023, Market Risk RWAs under IMA for MSI Group decreased primarily driven by a reduction in MSIP RNIVs attributable to a reduction in equity and XVA exposures.

5. Liquidity Risk

5.1.a. Qualitative Disclosures

The MSI Group's LCR Disclosure is effective 31 March 2023 and is based on the UK Capital Requirements Regulation ("CRR") rules.

On 31 March 2023, the MSI Group held excess High Quality Liquid Assets ("HQLA") over LCR required minimum of 100% (Pillar I) as specified by the total net cash outflows amount included in Table 8.

The Firm is subject to Pillar II requirements, assessed by the PRA, for risks not covered in the LCR (Pillar I). These risks are identified by the Firm and documented in the ILAAP that is then reviewed and assessed by the PRA as part of the Liquidity Supervisory Review Process ("L-SREP"). As a result, the Firm is required to hold sufficient liquidity in the form of HQLA to meet both Pillar I and Pillar II requirements. Pillar II amounts are not disclosed in Table 8.

Main drivers of the LCR

The 12-month LCR average values have been used to analyse the main requirement's drivers.

The most significant drivers of MSI Group and MSIP's cash outflows this quarter were secured wholesale funding, unsecured wholesale funding and outflows related to derivative exposures. MSI Group and MSIP's cash inflows this quarter were primarily driven by secured lending.

Explanations of the Changes in the LCR over Time

The MSI Group LCR decreased from 194% to 189%, driven by increase in the net average cash outflows, driven by decrease in Secured Funding Inflows.

The MSIP LCR decreased from 193% to 184%, driven by an increase in net average cash outflows, driven by decrease in Secured Funding Inflows.

Concentration of Funding Sources

The MSI Group funds itself through diverse sources. These sources may include equity capital, long-term debt, securities sold under agreements to repurchase, securities lending and lines of credit.

The MSI Group funds itself through transactions with affiliates in the Morgan Stanley Group for capital, unsecured and secured funding, and through a diverse range of counterparties in unsecured and secured funding markets.

High-level description of the composition of the institution's liquidity buffer

HQLA primarily comprises of Level 1 assets that includes government bonds, and cash with central banks.

Derivatives Exposures and Potential Collateral Calls

MSI Group participates in global derivatives markets. In some cases, the derivative counterparties have contractual rights that require the entities to post collateral to them in the event that credit rating agencies downgrade Group's credit rating. In measuring collateral call risks, all amounts of collateral that could be required to be posted in accordance with the terms and conditions of the downgrade trigger clauses found in applicable legal agreements are considered.

The impact of potential collateral calls related to the derivative exposures is inherently uncertain and depends on various interrelated factors, such as the magnitude of the downgrade, the rating relative to peers, the rating assigned by the relevant agency pre-downgrade, individual client behaviour and future mitigating actions that could be taken. MSI Group manages the risk of potential collateral calls on the derivative positions by employing a variety of risk mitigation strategies, including modelling the impact of credit rating agency downgrades in the liquidity stress test program, monitoring historical changes in variation margin, diversifying risk exposures, hedging, managing counterparty and product risk limits and maintaining Liquidity Resources to enable the MSI Group to meet unexpected collateral calls or other potentially adverse developments.

Currency mismatch in the LCR

A portion of MSI Group's business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar, therefore, can affect the value of non-U.S. dollar net assets, revenues and expenses. Potential exposures as a result of these fluctuations in currencies are closely monitored, and strategies are adopted to reduce the impact of these fluctuations on financial performance. These strategies may include the financing of non-U.S. dollar assets with direct or swap-based borrowings in the same currency and the use of currency forward contracts or the spot market in various hedging transactions related to net assets, revenues, expenses or cash flows.

5.1.b. Quantitative Disclosures

The LCR quantitative disclosures, shown in Table 8 reflects the monthly average value for each quarter-end period. The figures reported in the "Total Weighted Value" column reflect the prescribed industry-wide rules and haircuts applicable to the LCR to determine the firm's eligible HQLA and cash in/outflow amounts. The figures reported in the "Total Unweighted Value" columns reflect gross values prior to the application of the LCR weights.

Table 8: Quantitative Information of LCR (UK LIQ1) – MSI Group and MSIP

\$MM		a	b	c	d	e	f	g	h
MSI Group¹		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on (DD Month YYYY)	31-Mar- 2023	31-Dec- 2022	30-Sep- 2022	30-Jun- 2022	31-Mar- 2023	31-Dec- 2022	30-Sep- 2022	30-Jun- 2022
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-Quality Liquid Assets									
1	Total high-quality liquid assets (HQLA)					54,640	51,890	50,606	49,145
Cash Outflows									
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
3	<i>Stable deposits</i>	-	-	-	-	-	-	-	-
4	<i>Less stable deposits</i>	-	-	-	-	-	-	-	-
5	Unsecured wholesale funding	20,866	19,586	18,464	17,078	20,462	19,494	18,464	17,078
	<i>Operational deposits (all counterparties) and deposits in networks of cooperative banks</i>	-	-	-	-	-	-	-	-
7	<i>Non-operational deposits (all counterparties)</i>	20,451	19,201	18,073	16,656	20,047	19,109	18,073	16,656
8	<i>Unsecured debt</i>	415	385	391	422	415	385	391	422
9	Secured wholesale funding					40,445	40,754	42,623	44,279
10	Additional requirements	30,272	30,566	30,453	30,307	20,146	20,588	20,417	20,193
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	24,768	24,817	24,022	23,087	18,816	19,233	19,007	18,727
12	<i>Outflows related to loss of funding on debt products</i>	-	-	-	-	-	-	-	-
13	<i>Credit and liquidity facilities</i>	5,504	5,749	6,431	7,220	1,330	1,355	1,410	1,466
14	Other contractual funding obligations	47,443	47,150	46,929	47,291	1,278	1,227	1,160	1,006
15	Other contingent funding obligations	3,789	3,857	4,278	4,840	1,850	1,883	2,067	2,330
16	Total Cash Outflows					84,181	83,946	84,731	84,886
Cash Inflows									
17	Secured lending (e.g., reverse repos)	230,196	224,859	220,031	220,173	38,460	39,790	41,829	43,892
18	Inflows from fully performing exposures	10,729	10,877	11,423	12,063	10,027	10,123	10,517	10,968
19	Other cash inflows	7,821	8,291	8,367	7,708	7,821	8,291	8,367	7,708
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					1,323	1,299	1,295	1,329
UK-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	Total Cash Inflows	248,746	244,027	239,821	239,944	54,985	56,905	59,418	61,239
UK-20a	<i>Fully exempt inflows</i>	-	-	-	-	-	-	-	-
UK-20b	<i>Inflows Subject to 90% Cap</i>	-	-	-	-	-	-	-	-
UK-20c	<i>Inflows Subject to 75% Cap</i>	199,241	193,917	190,766	190,917	54,985	56,905	59,418	61,239
						Total Adjusted Value			
UK-21	Liquidity Buffer					54,640	51,890	50,606	49,145
22	Total Net Cash Outflows					29,316	27,161	25,430	23,765
23	Liquidity Coverage Ratio (%)					188.73%	193.54%	201.08%	206.79%

1. All cash inflows and outflows shown are at the full unweighted/weighted value and do not reflect the phase in of LCR requirements.

SMM MSIP ¹		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on (DD Month YYYY)	31-Mar-2023	31-Dec-2022	30-Sep-2022	30-Jun-2022	31-Mar-2023	31-Dec-2022	30-Sep-2022	30-Jun-2022
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-Quality Liquid Assets									
1	Total high-quality liquid assets (HQLA)					42,976	41,800	41,940	41,980
Cash Outflows									
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
3	Stable deposits	-	-	-	-	-	-	-	-
4	Less stable deposits	-	-	-	-	-	-	-	-
5	Unsecured wholesale funding	16,090	16,565	16,716	16,502	15,686	16,473	16,716	16,502
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	15,674	16,179	16,325	16,080	15,270	16,087	16,325	16,080
8	Unsecured debt	416	386	391	422	416	386	391	422
9	Secured wholesale funding					41,073	41,368	43,213	44,881
10	Additional requirements	22,828	22,557	21,500	20,260	16,842	16,982	16,494	15,920
11	Outflows related to derivative exposures and other collateral requirements	22,826	22,556	21,498	20,259	16,841	16,981	16,493	15,919
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	2	1	2	1	1	1	1	1
14	Other contractual funding obligations	49,349	49,513	48,851	49,213	1,235	1,180	1,120	975
15	Other contingent funding obligations	3,878	3,947	4,366	4,920	1,895	1,928	2,111	2,370
16	Total Cash Outflows					76,731	77,931	79,654	80,648
Cash Inflows									
17	Secured lending (e.g., reverse repos)	234,542	229,889	225,020	224,490	38,566	39,929	41,951	43,967
18	Inflows from fully performing exposures	9,443	9,658	10,320	10,864	8,746	8,909	9,423	9,779
19	Other cash inflows	7,114	7,614	7,778	7,206	7,114	7,613	7,778	7,206
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					1,163	1,155	1,165	1,213
UK-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	Total Cash Inflows	251,099	247,160	243,118	242,560	53,263	55,296	57,987	59,739
UK-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
UK-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
UK-20c	Inflows Subject to 75% Cap	202,188	197,466	194,251	193,631	53,263	55,296	57,987	59,739
						Total Adjusted Value			
UK-21	Liquidity Buffer					42,976	41,800	41,940	41,980
22	Total Net Cash Outflows					23,583	22,818	21,866	21,159
23	Liquidity Coverage Ratio (%)					182.90%	184.05%	192.72%	198.41%

1. All cash inflows and outflows shown are at the full unweighted/weighted value and do not reflect the phase in of LCR requirements.

6. Regulatory Developments

Finalising Basel III reforms

A number of remaining standards of the Basel III reform package have still to be implemented. These standards, referred to by the BCBS and international regulators as the 'Finalisation of Basel III', provide updates to key components of the capital framework. These include revised market RWAs requirements through the Fundamental Review of the Trading Book, new Credit Valuation Adjustments ("CVA") RWAs requirements, revisions to the credit RWAs calculations covering both standardised and advanced treatments, and a new RWAs requirement for operational risk. They also introduce an aggregate floor for RWAs generated by the internal models, which will be set at 72.5% of total standardised RWAs. The output floor will be phased in over five years. Banks will also need to disclose their RWAs based upon the standardised approaches.

The PRA issued their draft rules to implement these final standards, which they referred to as Basel 3.1, on 30 November 2022 for consultation. These rules are expected to be effective from 1 January 2025. The proposed rules are largely consistent with the Basel III reform package with some adjustments to address UK specificities. Pending the publication of the final rules, expected later in 2023, there remains some uncertainty on the final requirements and the overall impact. The same uncertainty on final requirements and timing exists in the EU, where the European Commission published draft rules in October 2021.

7. Appendix I: Abbreviations

Term	Definition
AIRB	Advanced IRB
Basel Accords	Standard for international banking prudential regulation in a series of accords
BCBS	Basel Committee on Banking Supervision
CET1	Common Equity Tier 1
CFTC	Commodity Futures Trading Commission
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustments
EBA	European Banking Authority
ECB	European Central Bank
EU	European Union
FCA	Financial Conduct Authority
FIRB	Foundation IRB
G-SII	Global Systemically Important Institution
HQLA	High-quality liquid assets
ICAAP	Internal Capital Adequacy Assessment
ILAAP	Internal Liquidity Adequacy Assessment
IMM	internal model method
LCR	Liquidity Coverage Ratio
LREQ	Leverage Ratio Requirements
L-SREP	Liquidity Supervisory Review Process
MSBAG	Morgan Stanley Bank AG
MSBIL	Morgan Stanley Bank International Limited
MSEHSE Group	Morgan Stanley Europe Holding SE Group
MSESE	Morgan Stanley Europe SE
MSESE Consol	Morgan Stanley Europe SE ("MSESE" together with its subsidiaries)
MSI	Morgan Stanley International Limited
MSI Group	Morgan Stanley International Limited ("MSI") together with its subsidiaries
MSIP	Morgan Stanley & Co. International plc
NSFR	Net Stable Funding Ratio
PRA	Prudential Regulation Authority
RNIV	Risks Not in VaR
RWAs	Risk Weighted Exposure Amounts
SBSD	Securities bases Swap Dealer
SEC	Securities and Exchange Commission
SPOE	Single Point of Entry
SREP	Supervisory Review and Evaluation Process
T1	Tier 1
T2	Tier 2
TLAC	Total Loss Absorbing Capacity
TOFR	Total Own Funds Requirements
UK	United Kingdom