

Morgan Stanley International Limited Group

Pillar 3 Regulatory Disclosure Report

As at 30 September 2023

Table of Contents

1. Overview and Key Metrics	3
2. Regulatory Frameworks	7
3. Total Loss-Absorbing Capacity	8
4. Capital Requirements and RWAs	9
5. Liquidity Risk	12
6. Regulatory Developments	16
7. Appendix I: Abbreviations	17

Tables

Table 1: Key metrics (UK KM1) – MSI Group	4
Table 2: Leverage Ratio - MSIP	5
Table 3: TLAC Key Metrics – MSI Group	8
Table 4: Overview of risk weighted exposure amounts (UK OV1) – MSI Group and MSIP	9
Table 5: RWAs flow statements of credit risk exposures under the IRB approach (UK CR8) – MSI Group and MSIP	10
Table 6: RWAs flow statements of CCR exposures under IMM (UK CCR7) – MSI Group and MSIP	10
Table 7 : RWA flow statements of market risk exposures under the IMA (UK MR2-B)	11
Table 8 : Quantitative Information of LCR (UK LIQ1) – MSI Group and MSIP	14

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 third quarter of 2023 and no significant change is expected.

As at 30 September 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 30 September 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 (“MSESE Consol”). As a result, MSESE Consol is considered the large subsidiary for disclosure purposes. The detailed large subsidiary disclosure requirements are included in the MSEHSE Group disclosure that is published separately and can be found at <https://www.morganstanley.com/about-us-ir/pillar-eu.html>.

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	Q3'23	Q2'23	Q1'23	Q4'22	Q3'22
Available own funds					
1 Common Equity Tier 1 (“CET1”) capital	24,459	24,550	22,926	23,038	21,526
2 Tier 1 (“T1”) capital	28,759	28,850	27,226	27,338	25,826
3 Total capital	35,276	35,591	34,177	35,123	33,865
Risk-weighted exposure amounts					
4 Total risk-weighted exposure amount	159,040	164,871	163,350	160,504	165,740
Capital ratios (as a percentage of risk-weighted exposure amount)					
5 Common Equity Tier 1 ratio (%)	15.38%	14.89%	14.04%	14.35%	12.99%
6 Tier 1 ratio (%)	18.08%	17.50%	16.67%	17.03%	15.58%
7 Total capital ratio (%)	22.18%	21.59%	20.92%	21.88%	20.43%
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%	1.68%
UK 7b Additional AT1 SREP requirements (%)	0.56%	0.56%	0.56%	0.56%	0.56%
UK 7c Additional Tier 2 (“T2”) SREP requirements (%)	0.75%	0.75%	0.75%	0.75%	0.75%
UK 7d Total SREP own funds requirements (%)	10.99%	10.99%	10.99%	10.99%	10.99%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8 Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
UK 8a Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	-	-
9 Institution specific countercyclical capital buffer (%)	0.55%	0.39%	0.34%	0.32%	0.07%
UK 9a Systemic risk buffer (%)	-	-	-	-	-
10 Global Systemically Important Institution buffer (%)	-	-	-	-	-
UK 10a Other Systemically Important Institution buffer	-	-	-	-	-
11 Combined buffer requirement (%)	3.05%	2.89%	2.84%	2.82%	2.57%
UK 11a Overall capital requirements (%)	14.04%	13.88%	13.83%	13.81%	13.56%
12 CET1 available after meeting the total SREP own funds requirements (%)	9.20%	8.71%	7.85%	8.17%	6.81%
Leverage ratio					
13 Total exposure measure excluding claims on central banks	470,568	463,515	480,781	454,835	473,219
14 Leverage ratio excluding claims on central banks (%)	6.11%	6.22%	5.66%	6.01%	5.46%
Additional leverage ratio disclosure requirements²					
14a Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	6.11%	6.22%	5.66%		
14b Leverage ratio including claims on central banks (%)	5.91%	6.00%	5.44%		
Average total exposure measure including claims on central banks	490,057	498,524	497,535		
Average total exposure measure excluding claims on central banks	472,273	480,132	479,088		
14c Average leverage ratio excluding claims on central banks (%)	6.10%	5.99%	5.70%		
14d Average leverage ratio including claims on central banks (%)	5.88%	5.77%	4.58%		
14e Countercyclical leverage ratio buffer (%)	0.19%	0.14%	0.12%		
Liquidity Coverage Ratio					
15 Total high-quality liquid assets (“HQLA”) (Weighted value - average)	55,270	55,988	54,640	51,890	50,606
UK 16a Cash outflows - Total weighted value	84,626	85,210	84,181	83,946	84,731
UK 16b Cash inflows - Total weighted value	54,604	54,399	54,985	56,905	59,418
16 Total net cash outflows (adjusted value)	30,022	30,811	29,316	27,161	25,430
17 Liquidity coverage ratio (%)	184.60%	182.12%	188.73%	193.54%	201.08%
Net Stable Funding Ratio					
18 Total available stable funding	114,310	112,644	110,383	110,085	
19 Total required stable funding	98,531	97,293	96,608	95,602	
20 NSFR ratio (%)	116.05%	115.78%	114.27%	115.16%	

1. The MSI Group is required to maintain a minimum ratio of own funds to Risk Weighted Exposure Amounts (“RWAs”). As at 30 September 2023, the MSI Group is in compliance with the PRA capital requirements.

2. Beginning 1 January 2023 MSI Group, a Leverage Ratio Requirements (“LREQ”) entity, is subject to additional leverage ratio disclosure requirements including the average total exposure measures to comply with the quarterly disclosure requirements.

Over the third quarter of 2023, MSI Group's capital ratio has increased primarily due to a decrease in RWAs driven by reduction in market risk. The leverage ratio decreased by 0.11% due to an increase in the leverage exposure and a decrease in T1 capital. The average leverage ratio was higher by 0.11% over the quarter primarily due to lower average exposures.

MSIP Leverage Ratio**Table 2: Leverage Ratio – MSIP**

\$MM	a	b	c	d	e
MSIP	Q3'23	Q2'23	Q1'23	Q4'22	Q3'22
Leverage ratio					
13 Total exposure measure excluding claims on central banks	429,609	424,455	440,032	416,138	436,918
14 Leverage ratio excluding claims on central banks (%)	5.07%	5.12%	5.03%	5.34%	4.91%
Additional leverage ratio disclosure requirements¹					
14a Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	5.07%	5.12%	5.03%		
14b Leverage ratio including claims on central banks (%)	5.04%	5.08%	4.97%		
Average total exposure measure including claims on central banks	435,546	444,496	443,251		
Average total exposure measure excluding claims on central banks	432,033	440,419	438,892		
14c Average leverage ratio excluding claims on central banks (%)	5.04%	5.00%	5.05%		
14d Average leverage ratio including claims on central banks (%)	5.00%	4.96%	5.00%		
14e Countercyclical leverage ratio buffer (%)	0.19%	0.13%	0.12%		

1. Beginning 1 January 2023 MSIP, a LREQ entity, is subject to additional leverage ratio disclosure requirements including the average total exposure measures to comply with the quarterly disclosure requirements.

Over the third quarter of 2023, MSIP's leverage ratio decreased by 0.05% due to an increase in leverage exposure partially offset by an increase in T1 capital. The average leverage ratio was higher by 0.04% over the quarter due to lower average exposures partially offset by lower average T1 capital.

Basis of Consolidation

The MSI Group completes its prudential consolidation in compliance with the 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 Liquidity Coverage Ratio ("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/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"). Both MSIP and MSESE are complying with home country capital requirements in lieu of SEC capital requirements pursuant to applicable substituted compliance rules.

MSIP, MSESE and Morgan Stanley Bank International Limited ("MSBIL") are also registered with the Commodity Futures Trading Commission ("CFTC") as a Swap Dealer. The CFTC are developing specific requirements to allow 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 published for Germany but still not available for the United Kingdom ("UK"). Until those rules are finalised, 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.

War and increased tensions in the Middle East

The MSI Group continues to monitor the war and increased tensions in the Middle East and its impact on the regional economy, as well as on other world economies and the financial markets. MSI Group's direct exposure to Israel is limited.

2. Regulatory Frameworks

Regulatory Overview

The 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 UK via the PRA Rulebook including retained European Union (“EU”) Law under the European Union (Withdrawal) Act 2018.

The Basel Accords are implemented in the EU through the Capital Requirements Regulation (“CRR”) and the Capital Requirements Directive (“CRD”) as well as standards issued by the European Banking Authority (“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 Process (“ICAAP”) and Internal Liquidity Adequacy Assessment Process (“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 UK 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. The minimum requirements are set at 18% of RWAs and 6.75% of leverage exposure, scaled at 90% for MSI Group as a material subsidiary, on a consolidated basis, of a non-UK 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 the Morgan Stanley Group Annual 10-K Report and Quarterly 10-Q Report as well as the Public Section of Morgan Stanley’s Title I resolution plan that can be accessed at <https://www.fdic.gov/resources/resolutions/resolution-authority/resplans/>. The MSI Group TLAC key metrics are provided in Table 3.

Table 3: TLAC Key Metrics – MSI Group

\$MM

MSI Group¹

	Q3'23	Q2'23	Q1'23	Q4'22	Q3'22
TLAC available	44,462	44,566	42,933	44,090	42,054
Total RWAs at the level of the resolution group	159,040	164,871	163,350	160,504	165,740
TLAC as a percentage of RWAs (row 1/row2) (%)	27.96%	27.03%	26.28%	27.47%	25.37%
Leverage ratio exposure measure at the level of the resolution group	470,568	463,515	480,781	454,835	473,219
TLAC at a percentage of leverage ratio exposures measure (row1/row4) (%)	9.45%	9.61%	8.93%	9.69%	8.89%

1. As at 30 September 2023, the MSI Group is in compliance with the TLAC requirements.

Over the third quarter of 2023, there was a minor decrease in MSI Group's TLAC available.

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.

§MM	MSI Group			MSIP		
	a	b	c	a	b	c
	RWAs	RWAs	TOFR	RWAs	RWAs	TOFR
	Q3'23	Q2'23	Q3'23	Q3'23	Q2'23	Q3'23
1 Credit risk (excluding CCR)	13,143	14,644	1,051	7,887	9,597	631
2 Of which standardised approach	3,683	4,480	295	1,789	2,578	143
3 Of which the Foundation IRB ("FIRB") approach	6,044	6,195	483	2,638	3,054	211
4 Of which slotting approach	-	-	-	-	-	-
UK 4a Of which equities under the simple risk weighted approach ¹	3,416	3,969	273	3,460	3,965	277
5 Of which the Advanced IRB ("AIRB") approach	-	-	-	-	-	-
6 Counterparty credit risk – CCR	61,696	62,582	4,936	53,315	54,251	4,265
7 Of which standardised approach	11,358	11,018	909	10,878	10,628	870
8 Of which internal model method ("IMM")	25,035	26,361	2,003	20,533	21,596	1,643
UK 8a Of which exposures to a CCP	1,336	1,384	107	652	763	52
UK 8b Of which credit valuation adjustment - CVA	18,791	18,060	1,503	16,039	15,447	1,283
9 Of which other CCR	5,176	5,759	414	5,213	5,817	417
15 Settlement risk	79	126	6	76	130	6
16 Securitisation exposures in the non-trading book (after the cap)	1,702	2,412	136	1,702	2,406	136
17 Of which SEC-IRBA approach	-	-	-	-	-	-
18 Of which SEC-ERBA (including IAA)	760	811	61	760	805	61
19 Of which SEC-SA approach	-	-	-	-	-	-
UK 19a Of which 1250%/ deduction	942	1,601	75	942	1,601	75
20 Position, foreign exchange and commodities risks (Market risk)	61,152	65,380	4,892	44,373	47,508	3,550
21 Of which standardised approach	15,591	16,657	1,247	6,705	7,696	537
22 Of which IMA	45,561	48,723	3,645	37,668	39,812	3,013
UK 22a Large exposures	5,911	4,370	473	1,459	1,418	117
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	793	726	63	842	777	67
29 Total	159,040	164,871	12,723	119,619	126,117	9,570

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 third quarter of 2023, MSI Group and MSIP's RWAs decreased primarily from a reduction in market risk, specifically Stressed Value at Risk ("SVaR") and Risks Not in VaR ("RNIV") based RWAs, partially offset by an increase in Incremental Risk Charge ("IRC").

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

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

\$MM	a	a
	MSI Group RWAs	MSIP RWAs
1 RWAs as at the end of the previous reporting period¹	6,195	3,054
2 Asset size	(17)	(300)
3 Asset quality	(134)	(116)
4 Model updates	-	-
5 Methodology and policy	-	-
6 Acquisitions and disposals	-	-
7 Foreign exchange movements	-	-
8 Other	-	-
9 RWAs as at the end of the reporting period	6,044	2,638

1. Previous reporting period was Q2'23.

Over the third quarter of 2023, MSI Group and MSIP's RWAs decreased mainly due to a reduction in cash exposure. Counterparty credit quality changes also contributed to the decrease.

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

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

\$MM	a	a
	MSI Group RWAs	MSIP RWAs
1 RWAs at the end of the previous reporting period¹	26,361	21,596
2 Asset size	(900)	(680)
3 Credit quality of counterparties	(426)	(383)
4 Model updates (IMM only)	-	-
5 Methodology and policy (IMM only)	-	-
6 Acquisitions and disposals	-	-
7 Foreign exchange movements	-	-
8 Other	-	-
9 RWAs at the end of the current reporting period	25,035	20,533

1. Previous reporting period was Q2'23.

Over the third quarter of 2023, MSI Group and MSIP's RWAs decreased primarily due to business and market movements within Over-the-Counter ("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)								
\$MM								
	a	b	c	d	e	f	g	
MSI Group	VaR	SVaR	IRC	Comprehensive risk measure	Other⁴	Total RWAs	TOFR	
1 RWAs at previous period end¹	7,532	12,980	6,266	0	21,945	48,723	3,898	
1a Regulatory adjustment ²	(4,775)	(9,299)	-	-	(14,926)	(29,000)	(2,320)	
1b RWAs at the previous quarter-end (end of the day)	2,757	3,681	6,266	0	7,019	19,723	1,578	
2 Movement in risk levels	1,095	(134)	2,779	0	4,719	8,459	677	
3 Model updates/changes	(45)	(266)	-	-	(1,787)	(2,098)	(168)	
4 Methodology and policy	-	-	-	-	-	-	-	
5 Acquisitions and disposals	-	-	-	-	-	-	-	
6 Foreign exchange movements	(12)	(30)	(46)	-	(42)	(130)	(10)	
7 Other ³	(103)	95	36	-	201	229	18	
8a RWAs at the end of the disclosure period (end of the day)	3,692	3,346	9,035	0	10,110	26,183	2,095	
8b Regulatory adjustment ²	4,148	5,901	-	0	9,329	19,378	1,550	
8 RWAs at the end of the disclosure period	7,840	9,247	9,035	0	19,439	45,561	3,645	
MSIP								
1 RWAs at previous period end¹	6,368	10,190	4,650	0	18,604	39,812	3,185	
1a Regulatory adjustment ²	(4,021)	(7,410)	-	-	(12,968)	(24,399)	(1,952)	
1b RWAs at the previous quarter-end (end of the day)	2,347	2,780	4,650	0	5,636	15,413	1,233	
2 Movement in risk levels	1,136	12	2,694	0	4,472	8,314	665	
3 Model updates/changes	(45)	(263)	-	-	(1,786)	(2,094)	(168)	
4 Methodology and policy	-	-	-	-	-	-	-	
5 Acquisitions and disposals	-	-	-	-	-	-	-	
6 Foreign exchange movements	-	-	-	-	-	-	-	
7 Other ³	(27)	92	43	-	201	309	25	
8a RWAs at the end of the disclosure period (end of the day)	3,411	2,621	7,387	0	8,523	21,942	1,755	
8b Regulatory adjustment ²	3,501	4,323	-	0	7,902	15,726	1,258	
8 RWAs at the end of the disclosure period	6,912	6,944	7,387	0	16,425	37,668	3,013	

1. Previous reporting period was Q2'23.

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 ("Value at Risk") / SVaR and 12-week average position in the case of IRC and CRMe ("Comprehensive Risk Measure"). The regulatory adjustments also account for the multiplication factors (mc) and (ms), 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 RNIV.

Over the third quarter of 2023, modelled market risk RWAs for both MSI Group and MSIP decreased. There was a reduction in SVaR-based RWAs driven by risk profile changes, and a reduction in RNIV-based RWAs following enhancements in the risk coverage in VaR. These were partially offset by an increase in IRC which was due to increased sovereign exposure.

5. Liquidity Risk

5.1.a Qualitative Disclosures

As at 30 September 2023, the MSI Group held excess HQLA over LCR required minimum of 100% (Pillar I) as specified by the total net cash outflows amount included in Table 8.

The MSI Group and MSIP are also subject to Pillar II requirements, assessed by the PRA, for risks not covered in the LCR (Pillar I). These risks are identified by the MSI Group and MSIP 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 MSI Group and MSIP are 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 which includes reverse repurchase transactions, securities borrowed and margin loan transactions.

Explanations of the Changes in the LCR over Time

The MSI Group LCR increased from 182% to 185%, driven by decrease in HQLA and decrease in the net average cash outflows, driven by decrease in Non-operational deposits.

The MSIP LCR increased from 183% to 188%, driven by decrease in HQLA and decrease in the net average cash outflows, driven by decrease in Non-operational deposits.

Concentration of Funding Sources

The MSI Group funds itself through diverse sources. These sources may include equity capital, long-term debt, external structured notes issuance, 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 the 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. Dollars ("USD"), and changes in foreign exchange rates relative to the USD, therefore, can affect the value of non-USD 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-USD 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 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	30-Sep-2023	30-Jun-2023	31-Mar-2023	31-Dec-2022	30-Sep-2023	30-Jun-2023	31-Mar-2023	31-Dec-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)					55,270	55,988	54,640	51,890
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	20,768	21,573	20,866	19,586	19,797	20,874	20,462	19,494
6	<i>Operational deposits (all counterparties) and deposits in networks of cooperative banks</i>	-	-	-	-	-	-	-	-
7	<i>Non-operational deposits (all counterparties)</i>	20,222	21,102	20,451	19,201	19,251	20,403	20,047	19,109
8	<i>Unsecured debt</i>	546	471	415	385	546	471	415	385
9	Secured wholesale funding					42,399	41,296	40,445	40,754
10	Additional requirements	29,526	29,992	30,272	30,566	19,205	19,913	20,146	20,588
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	23,811	24,430	24,768	24,817	17,703	18,502	18,816	19,233
12	<i>Outflows related to loss of funding on debt products</i>	-	-	-	-	-	-	-	-
13	<i>Credit and liquidity facilities</i>	5,715	5,562	5,504	5,749	1,502	1,411	1,330	1,355
14	Other contractual funding obligations	47,667	47,262	47,443	47,150	1,162	1,233	1,278	1,227
15	Other contingent funding obligations	4,208	3,870	3,789	3,857	2,063	1,894	1,850	1,883
16	Total Cash Outflows					84,626	85,210	84,181	83,946
Cash Inflows									
17	Secured lending (e.g., reverse repos)	237,157	232,175	230,196	224,859	39,158	38,318	38,460	39,790
18	Inflows from fully performing exposures	10,711	10,618	10,729	10,877	10,037	9,911	10,027	10,123
19	Other cash inflows	6,632	7,384	7,821	8,291	6,632	7,384	7,821	8,291
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)					1,223	1,214	1,323	1,299
UK-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	Total Cash Inflows	254,500	250,177	248,746	244,027	54,604	54,399	54,985	56,905
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>	205,635	201,589	199,241	193,917	54,604	54,399	54,985	56,905
						Total Adjusted Value			
UK-21	Liquidity Buffer					55,270	55,988	54,640	51,890
22	Total Net Cash Outflows					30,022	30,811	29,316	27,161
23	Liquidity Coverage Ratio (%)					184.60%	182.12%	188.73%	193.54%

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

\$MM MSIP¹		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on	30-Sep-2023	30-Jun-2023	31-Mar-2023	31-Dec-2022	30-Sep-2023	30-Jun-2023	31-Mar-2023	31-Dec-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)					41,991	42,999	42,976	41,800
Cash-Outflows									
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
3	Stable deposits	-	-	-	-	-	-	-	-
4	Less stable deposits	-	-	-	-	-	-	-	-
5	Unsecured wholesale funding	14,019	15,295	16,090	16,565	13,048	14,596	15,686	16,473
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	13,472	14,824	15,674	16,179	12,501	14,125	15,270	16,087
8	Unsecured debt	547	471	416	386	547	471	416	386
9	Secured wholesale funding					43,101	41,991	41,073	41,368
10	Additional requirements	21,893	22,467	22,828	22,557	15,659	16,437	16,842	16,982
11	Outflows related to derivative exposures and other collateral requirements	21,883	22,460	22,826	22,556	15,657	16,436	16,841	16,981
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	10	7	2	1	2	1	1	1
14	Other contractual funding obligations	48,076	48,275	49,349	49,513	1,147	1,199	1,235	1,180
15	Other contingent funding obligations	4,265	3,948	3,878	3,947	2,092	1,933	1,895	1,928
16	Total Cash Outflows					75,047	76,156	76,731	77,931
Cash Inflows									
17	Secured lending (e.g., reverse repos)	241,048	236,097	234,542	229,889	39,351	38,442	38,566	39,929
18	Inflows from fully performing exposures	9,222	9,282	9,443	9,658	8,553	8,580	8,746	8,909
19	Other cash inflows	5,896	6,662	7,114	7,614	5,896	6,662	7,114	7,613
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)					1,055	1,035	1,163	1,155
UK-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	Total Cash Inflows	256,166	252,041	251,099	247,160	52,745	52,649	53,263	55,296
UK-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
UK-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
UK-20c	Inflows Subject to 75% Cap	208,024	204,099	202,188	197,466	52,745	52,649	53,263	55,296
						Total Adjusted Value			
UK-21	Liquidity Buffer					41,991	42,999	42,976	41,800
22	Total Net Cash Outflows					22,469	23,588	23,583	22,818
23	Liquidity Coverage Ratio (%)					188.33%	183.37%	182.90%	184.05%

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 July 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 that are expected to be effective from 1 January 2025.

7. Appendix I: Abbreviations

Term	Definition
AIRB	Advanced IRB
AT1	Additional Tier 1
Basel Accords	Standard for international banking prudential regulation in a series of accords
BCBS	Basel Committee on Banking Supervision
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CET1	Common Equity Tier 1
CFTC	Commodity Futures Trading Commission
CRD	Capital Requirements Directive
CRMe	Comprehensive Risk Measure
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
IAA	Internal Assessment Approach
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IMA	Internal Modelling Approaches
IMM	Internal Model Method
IRB	Internal Ratings Based
IRC	Incremental Risk Charge
LCR	Liquidity Coverage Ratio
LREQ	Leverage Ratio Requirements
L-SREP	Liquidity Supervisory Review Process
MM	Millions
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 subsidiary Morgan Stanley Bank AG)
MSI	Morgan Stanley International Limited
MSI Group	("MSI") together with its subsidiaries
MSIP	Morgan Stanley & Co. International plc
NSFR	Net Stable Funding Ratio
OTC	Over-the-Counter
PRA	Prudential Regulation Authority
RNIV	Risks Not in VaR
RWAs	Risk Weighted Exposure Amounts
SBSD	Securities Based Swap Dealer
SEC	Securities and Exchange Commission
SEC-ERBA	Securitisation External Ratings Based Approach
SEC-IRBA	Securitisation Internal Ratings Based Approach
SEC-SA	Securitisation Standardised Approach
SPOE	Single Point of Entry
SREP	Supervisory Review and Evaluation Process
SVaR	Stressed Value at Risk
T1	Tier 1
T2	Tier 2
TLAC	Total Loss Absorbing Capacity
TOFR	Total Own Funds Requirements
USD	U.S. Dollars
UK	United Kingdom
VaR	Value at Risk