Morgan Stanley International Limited Group

Pillar 3 Quarterly Disclosure Report

As at 30 September 2020

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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 third quarter of 2020.

As at 30 September 2020, Morgan Stanley & Co. International plc ("MSIP") is a large subsidiary within the MSI Group. MSIP is authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and Financial Conduct Authority ("FCA").

In addition, the MSI Group contains the MSIM sub-consolidated group ("MSIM Group"). For further information on the MSIM Group, please refer to the annual MSI Group disclosure which is located at https://www.morganstanley.com/about-us-ir/pillar-uk.html

Key Metrics

Table 1: Key metrics
$MM

MSI Group[1]	Q3'20	Q2'20	Q1'20	Q4'19	Q3'19
Common Equity Tier 1 Capital[2]	21,047	20,150	19,069	19,734	18,815
Additional Tier 1 Capital	3,500	3,500	3,500	3,500	3,500
Tier 1 Capital	**24,547**	**23,650**	**22,569**	**23,234**	**22,315**
Tier 2 Capital	**5,373**	**5,361**	**5,362**	**5,383**	**5,358**
Total Own Funds	**29,920**	**29,011**	**27,931**	**28,617**	**27,673**
Risk Weighted Assets	155,236	158,394	152,140	137,333	137,019
Common Equity Tier 1 Ratio	13.6%	12.7%	12.5%	14.4%	13.7%
Tier 1 Capital Ratio	15.8%	14.9%	14.8%	16.9%	16.3%
Total Capital Ratio	19.3%	18.3%	18.4%	20.8%	20.2%
Leverage Exposure	461,992	454,204	458,603	455,153	468,322
Leverage Ratio[3]	5.3%	5.2%	4.9%	5.1%	4.8%
Liquidity buffer	45,785	46,883	48,508	48,541	48,298
Total net cash outflows	21,507	21,058	21,121	21,267	21,291
Liquidity Coverage Ratio[4]	**213%**	**223%**	**230%**	**228%**	**227%**

MSIP[1]	Q3'20	Q2'20	Q1'20	Q4'19	Q3'19
Common Equity Tier 1 Capital[2]	16,298	15,724	14,895	15,394	15,043
Additional Tier 1 Capital	3,500	3,500	3,500	3,500	3,500
Tier 1 Capital	**19,798**	**19,224**	**18,395**	**18,894**	**18,543**
Tier 2 Capital	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**
Total Own Funds	**24,798**	**24,224**	**23,395**	**23,894**	**23,543**
Risk Weighted Assets	143,871	144,307	134,852	127,347	129,381
Common Equity Tier 1 Ratio	11.3%	10.9%	11.0%	12.1%	11.6%
Tier 1 Capital Ratio	13.8%	13.3%	13.6%	14.8%	14.3%
Total Capital Ratio	17.2%	16.8%	17.3%	18.8%	18.2%
Leverage Exposure	450,574	440,711	443,185	445,417	455,937
Leverage Ratio[3]	4.4%	4.4%	4.2%	4.2%	4.1%

1. The MSI Group and MSIP are required to maintain a minimum ratio of Own Funds to Risk Weighted Assets ("RWAs"). As at 30 September 2020, the MSI Group and MSIP are in compliance with the PRA capital requirements.
2. MSI Groups adjustments to Common Equity Tier 1 ("CET1") Capital due to prudential filters as at 30 September 2020 are $1,167MM and as at 30 June 2020 were $1,273MM. MSIP's adjustments to CET1 due to prudential filters as at 30 September 2020 are $1,082MM and as at 30 June 2020 were $1,203MM.
3. Leverage is disclosed on a fully phased-in basis and made in accordance with the European Union ("EU") Delegated Act.
4. Total weighted adjusted value (12 month average)

Basis of Consolidation

The MSI Group completes its prudential consolidation in compliance with Capital Requirements Regulation ("CRR") Part One, Title II Chapter 2, with all entities fully consolidated. The basis of consolidation for prudential purposes is 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 by CRD IV. The most significant subsidiary of the MSI Group is MSIP, the results of which are material to the MSI Group. The risk profile of MSIP is materially the same as the MSI Group and risk management policies and procedures are applied consistently. This disclosure comprehensively conveys the risk profile of the MSI Group and MSIP.

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 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, to file public disclosures, including Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. These can be accessed at http://www.morganstanley.com/pub/content/msdotcom/en/about-us-ir/sec-filings.

2. Regulatory Frameworks

The Basel Capital Accord provides a global regulatory framework for capital and liquidity. This was revised in 2010 following the financial crisis, through a number of reforms collectively known as Basel III. The revised Basel Capital Accord has been implemented in the EU via the Capital Requirements Directive ("CRD") and the CRR (collectively known as "CRD IV"). These new requirements took effect from 1 January 2014.

The framework consists of three "Pillars":

- Pillar 1 – Minimum capital 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 Part Eight of the CRR. For certain disclosures, these requirements are further detailed through the European Banking Authority ("EBA") Regulatory Technical Standards ("RTS") and Implementing Technical Standards ("ITS") which include a number of common templates. Where applicable, these templates are used within this disclosure.

The MSI Group has policies and procedures in place to assess the appropriateness of its Pillar 3 disclosure. One or more members of the management body are required to confirm that the disclosure has been prepared in accordance with internal control processes agreed upon at the management body level. The MSI Group's Pillar 3 disclosure is not required to be, and has not been, audited by the MSI Group's auditor. The MSI Group's Pillar 3 disclosure as at 30 September 2020 is based on its current understanding of CRD IV and related legislation, which may be subject to change as the MSI Group receives additional clarification and implementation guidance from regulators relating to CRD IV and as the interpretation of the final rules evolves over time.

3. Capital Management

The MSI Group views capital as an important source of financial strength. It manages and monitors its capital in line with established policies and procedures and in compliance with local regulatory requirements. In line with Morgan Stanley Group capital management policies, the MSI Group manages its capital position based upon, among other things, business opportunities, risks, capital availability and rate of return together with, internal capital policies, regulatory requirements and rating agency guidelines. Therefore, in the future it may adjust its capital base in reaction to the changing needs of its businesses. The appropriate level of capital is determined at a legal entity level to safeguard that entity's ability to continue as a going concern and ensure that it meets all regulatory capital requirements. The key components of the capital management framework used by the MSI Group are set out in the MSI Group Capital Planning and Management Policy and include a point in time risk and leverage based capital assessment, forward looking capital projections and stress testing. The MSI Group conducts an ICAAP at least annually in order to meet its obligations under CRD IV.

The ICAAP is a key tool used to inform the MSI Board and the executive management on risk profile and capital adequacy. The MSI Group's ICAAP:

- Is designed to ensure the risks to which the MSI Group is exposed are appropriately capitalised and risk managed, including those risks that are either not captured, or not fully captured under Pillar 1; and
- Uses stress testing to size a capital buffer aimed at ensuring the MSI Group will continue to operate above regulatory requirements under a range of severe but plausible stress scenarios; and
- Assesses capital adequacy under normal and stressed operating environments over the three year capital planning horizon to ensure the MSI Group maintains a capital position in line with pre and post stress minimum levels.

The key elements of the ICAAP are embedded in the MSI Group's day-to-day management processes and decision making culture.

The PRA reviews the MSI Group ICAAP through its Supervisory Review and Evaluation Process ("SREP") and sets a Total Capital Requirement ("TCR"), comprising Pillar 1 and Pillar 2A, which establishes the minimum level of regulatory capital for the MSI Group and MSIP. The PRA announced it would set Pillar 2A requirements as a nominal amount in the 2020 and 2021 SREPs, and firms who do not have a SREP due in 2020 could apply for a conversion of the current P2A requirement into a nominal amount. As of 30 September 2020 the MSI Group TCR was $17.1Bn, equivalent to 11.0% of RWAs. If required, the PRA also sets a buffer in addition to the Basel Combined Buffers, which is available to support the MSI Group in a stressed market environment.

The Capital Conservation Buffer ("CCB") requires banks to build up a capital buffer that can be utilised to absorb losses during period of stress, whilst remaining compliant with minimum requirements, and must be met with Common Equity Tier 1 ("CET1") capital. The CCB was fully phased in on 1 January 2019 at 2.5%.

The Countercyclical Capital Buffer ("CCyB") was introduced to ensure that excessive growth in specific countries is accounted for by increasing minimum capital ratios by between 0% and 2.5%, and must be met with CET1 Capital. The CCyB for the MSI Group stood at 0.04% as of 30 September 2020. On 11 March 2020, the Financial Policy Committee ("FPC") reduced the UK CCyB to 0% with immediate effect. The FPC expects that the 0% rate will be effective until at least March 2022. Regulators in other jurisdictions have implemented similar actions.

MSI Group capital is managed to ensure risk and leverage based requirements assessed through the ICAAP and SREP are met. Internal capital ratio minima are set by the MSI Board to ensure the MSI Group and its subsidiaries have sufficient capital to meet their regulatory requirements at all times.

The capital managed by the MSI Group broadly includes share capital, Additional Tier 1 ("AT1") capital instruments, subordinated debt and reserves. In order to maintain or adjust its capital structure, the MSI Group may pay dividends, return capital to its shareholders, issue new shares, or issue or repay AT1 capital instruments or subordinated debt.

There are no current or foreseen material, practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the MSI Group and its subsidiaries.

COVID-19 Regulatory Measures

In response to the significant economic impact of the COVID-19 pandemic, global regulators have released a suite of regulatory updates and programs to facilitate market continuation and to provide incentives for banks to continue lending to business and consumers. The regulatory responses to COVID-19 differ by jurisdictions and continue to evolve.

In the EU, effective from 27 June 2020, targeted amendments were made to the CRR and the revised CRR ("CRR II"). The amendments include revised capital and liquidity requirements to address the impact of higher market volatility. For example, they allow flexibility for competent authorities to exclude certain back-testing exceptions observed during the COVID-19 pandemic period if certain conditions are met, which will reduce institutions' Value-at-Risk ("VaR") multiplier and capital requirements for market risk calculated using internal models.

In the UK, the Bank of England reduced countercyclical buffer requirements. Other guidance has also been provided, for example on the use of capital and liquidity buffers.

The impact of these regulatory measures are included within regular forward looking capital planning activities.

4. Total Loss-Absorbing Capacity

MSI Group is subject to internal TLAC requirements via CRR II. These requirements are designed to enhance the resilience of the financial system by ensuring firms have sufficient capital to absorb losses and recapitalise under resolution. The minimum capacity requirements are set at 16% of risk weighted assets and 6% of leverage exposure, scaled at 90% for MSI Group as the subsidiary of a non-EU Global Systemically Important Institution ("G-SII").

Morgan Stanley's preferred resolution strategy is a Single Point of Entry ("SPOE") strategy. Further information on resolution strategy can be found in Morgan Stanley Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. The MSI Group TLAC key metrics are provided in Table 2.

Table 2: TLAC key metrics

$MM MSI Group	Q3'20	Q2'20	Q1'20	Q4'19	Q3'19
Total loss absorbing capacity (TLAC) available	**35,920**	**35,011**	**33,931**	**34,617**	**30,173**
Total RWA at the level of the resolution group	**155,236**	**158,394**	**152,140**	**137,333**	**137,019**
TLAC as a percentage of RWA (row 1/row2) (%)[1]	23.1%	22.1%	22.3%	25.2%	22.0%
Leverage ratio exposure measure at the level of the resolution group	461,992	454,204	458,603	455,153	468,322
TLAC at a percentage of leverage ratio exposures measure (row1/row4) (%)[1]	7.8%	7.7%	7.4%	7.6%	6.4%

1. As at 30 September 2020, the MSI Group is in compliance with the TLAC requirements.

5. Leverage

The Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a supplementary measure to the risk-based capital requirements. The Basel Committee is of the view that a simple leverage ratio framework is critical and complementary to the risk-based capital framework and that a credible leverage ratio ensures broad and adequate capture of both the on and off-balance sheet sources of banks' leverage.

The MSI Group and MSIP leverage ratios as at 30 September 2020 exceed the minimum requirement of 3% that will apply once new legislation comes into effect, expected to be from 1 January 2022. MSI Group manages its risk of excessive leverage through the application of business unit leverage exposure limits and leverage ratio early warning trigger levels. Limits are calibrated in line with legal entity capacity and ensure that leverage exposure remains within the MSI Board's risk appetite. MSI Group and MSIP's leverage exposures are calculated monthly and weekly, respectively, and reported to EMEA ALCO who monitor this, as well as maturity mismatches and asset encumbrance metrics, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately.

The MSI Group leverage ratio increased 0.1% and MSIP leverage ratio remains unchanged from 30 June 2020 to 30 September 2020, the increase in Tier1 Capital is offset by an increase in exposure.

6. Capital Requirements and RWAs

RWAs reflect both on- and off-balance sheet risk, as well as capital charges attributable to the risk of loss arising from the following.

Credit and Counterparty Credit Risk ("CCR") refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations. Credit and Counterparty Credit capital requirements are derived from RWAs, determined using approved internal modelling approaches – the Foundation Internal Ratings Based approach ("IRB") for credit risk and the Internal Models Method ("IMM") for counterparty risk – as well as the Standardised Approach ("SA") and Mark-to-Market Method ("MTMM") for exposures not covered by internal models.

Credit Valuation Adjustment ("CVA") is the capital requirement that covers the risk of mark-to-market losses on the counterparty risk of Over-the-Counter ("OTC") and Listed derivatives. It is calculated using a combination of advanced internal modelling and standardised approaches.

Securitisations exposures are a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranched, having the following characteristics. Payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures. Also, the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. The Market Risk capital requirements comprise of capital associated with the Internal Modelling Approaches ("IMA") approved by the PRA and those associated with the Standardised Approach.

Large exposures refer to the capital requirement that covers the risk due to concentrated exposures to a single counterparty or group of connected counterparties.

Operational risk refers to the risk of loss, or of damage to reputation, resulting from inadequate or failed processes, people and systems or from external events (e.g. fraud, theft, legal and compliance risks, cyber-attacks or damage to physical assets). Capital requirements for operational risk are currently calculated under the Basic Indicator Approach ("BIA").

Amounts below the thresholds for deduction correspond to items not deducted from Own Funds, as they are below the applicable thresholds for deduction, in accordance with the CRR.

The MSI Group enhances its risk management strategy and incorporates improvements in modelling techniques while maintaining compliance with the regulatory requirements.

Table 3 summarises RWAs and minimum capital requirements ("MCR") 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 IV.

Table 3: Overview of RWAs (EU OV1)

$MM	RWAs	RWAs	MCR
MSI Group	**Q3'20**	**Q2'20**	**Q3'20**
Credit risk (excluding CCR)	**12,121**	**12,255**	**970**
Of which standardised approach	4,264	3,249	341
Of which foundation IRB (FIRB) approach	5,772	6,783	462
Of which advanced IRB (AIRB) approach	-	-	-
Of which equity IRB under the simple risk-weighted approach or the IMA	2,085	2,223	167
CCR	**59,718**	**56,356**	**4,777**
Of which mark-to-market	9,171	8,560	734
Of which original exposure	-	-	-
Of which standardised approach	238	236	19
Of which internal model method	25,738	23,808	2,058
Of which Financial collateral comprehensive method (for SFTs)	8,157	8,087	653
Of which risk exposure amount for contributions to the default fund of a CCP	1,041	982	83
Of which CVA	15,373	14,683	1,230
Settlement risk	**62**	**71**	**5**
Securitisation exposures in banking book (after cap)[1]	**193**	**215**	**15**
Of which IRB	-	-	-
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	-	-	-
Market risk	**62,593**	**69,577**	**5,007**
Of which standardised approach	13,521	14,170	1,082
Of which IMA	49,072	55,407	3,925
Large exposures	**7,971**	**7,419**	**638**
Operational risk	**12,094**	**12,094**	**968**
Of which basic indicator approach	12,094	12,094	968
Of which standardised approach	-	-	-
Of which advanced measurement approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**484**	**407**	**39**
Floor adjustment	**-**	**-**	**-**
Total	**155,236**	**158,394**	**12,419**
MSIP			
Credit risk (excluding CCR)	**9,621**	**9,208**	**770**
Of which standardised approach	2,782	1,728	223
Of which foundation IRB (FIRB) approach	4,877	5,400	390
Of which advanced IRB (AIRB) approach	-	-	-
Of which equity IRB under the simple risk-weighted approach or the IMA	1,962	2,080	157
CCR	**58,150**	**54,724**	**4,652**
Of which mark-to-market	8,945	8,202	716
Of which original exposure	-	-	-
Of which standardised approach	227	217	18
Of which internal model method	25,060	23,124	2,005
Of which Financial collateral comprehensive method (for SFTs)	8,517	8,451	681
Of which risk exposure amount for contributions to the default fund of a CCP	685	666	55
Of which CVA	14,716	14,064	1,177
Settlement risk	**59**	**50**	**5**
Securitisation exposures in banking book (after cap)[1]	**193**	**215**	**15**
Of which IRB	-	-	-
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	-	-	-
Market risk	**53,650**	**60,253**	**4,292**
Of which standardised approach	8,143	8,836	651
Of which IMA	45,507	51,417	3,641
Large exposures	**12,884**	**10,626**	**1,031**
Operational risk	**8,799**	**8,799**	**704**
Of which basic indicator approach	8,799	8,799	704
Of which standardised approach	-	-	-
Of which advanced measurement approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**515**	**432**	**41**
Floor adjustment	**-**	**-**	**-**
Total	**143,871**	**144,307**	**11,510**

1. As of 1 Jan 2020, these positions were subject to the hierarchy of methods laid down in the revised securitisation framework.

Over the third quarter RWAs decreased, primarily driven by Market Risk due to decreases in VaR based measures; partially offset by an increase in Counterparty Credit Risk predominately driven by IMM.

RWA flow statements

Table 4 summarises the movements of RWAs and MCR for MSI Group and MSIP's credit risk exposures under the IRB approach.

Table 4: RWA flow statements of credit risk exposures under the IRB approach (EU CR8)

$MM	MSI Group		MSIP	
	RWAs	MCR	RWAs	MCR
RWAs at the end of the previous reporting period[1]	**6,783**	**542**	**5,400**	**432**
Asset size	(1,018)	(81)	(530)	(43)
Asset quality	7	1	7	1
Model updates	-	-	-	-
Methodology and policy	-	-	-	-
Acquisitions and disposals	-	-	-	-
Foreign exchange movements	-	-	-	-
Other	-	-	-	-
RWAs at the end of the reporting period	**5,772**	**462**	**4,877**	**390**

1. Previous reporting period was Q2.20.

Over the third quarter, MSI Group and MSIP asset size decreased, primarily driven by decreases in cash exposure and provisions.

Table 5 summarises the movements of RWAs and MCR for MSI Group and MSIP's counterparty credit risk exposures under the IMM Model.

Table 5: RWA flow statements of CCR exposures under the IMM (EU CCR7)

$MM	MSI Group		MSIP	
	RWAs	MCR	RWAs	MCR
RWAs at the end of the previous reporting period[1]	**23,808**	**1,904**	**23,124**	**1,850**
Asset size	2,539	203	2,599	208
Credit quality of counterparties	(609)	(49)	(663)	(53)
Model updates (IMM only)	-	-	-	-
Methodology and policy (IMM only)	-	-	-	-
Acquisitions and disposals	-	-	-	-
Foreign exchange movements	-	-	-	-
Other	-	-	-	-
RWAs at the end of the reporting period	**25,738**	**2,058**	**25,060**	**2,005**

1. Previous reporting period was Q2'20.

Over the third quarter, the increase in RWAs was mainly driven by portfolio and market movements.

Table 6 summarises the key drivers of RWAs and MCR for MSI Groups and MSIP's market risk exposures under the Internal IMA Model.

Table 6: RWA flow statements of market risk exposures under the IMA (EU MR2-B)

$MM	VAR	Stressed VAR	IRC	Comprehensive risk measure	Other[4]	RWAs	MCR
MSI Group							
RWAs at previous quarter end[1]	**13,138**	**14,696**	**4,569**	**1**	**23,003**	**55,407**	**4,433**
Regulatory adjustment[2]	(9,870)	(11,182)	(1,204)	(1)	(5,143)	(27,400)	(2,192)
RWAs at end of day previous quarter end	3,268	3,514	3,365	-	17,860	28,007	2,241
Movement in risk levels	(611)	(78)	(722)	-	(1,460)	(2,871)	(230)
Model updates/changes	100	54	-	-	13	167	13
Methodology and policy	-	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-
Foreign exchange movements	-	-	-	-	-	-	-
Other[3]	134	(286)	59	-	-	(93)	(7)
RWAs at end of day current quarter end	2,891	3,204	2,702	-	16,413	25,210	2,017
Regulatory adjustment[2]	6,537	9,170	761	-	7,394	23,862	1,909
RWAs at end of reporting period	**9,428**	**12,374**	**3,463**	**0**	**23,807**	**49,072**	**3,926**
MSIP							
RWAs at previous quarter end[1]	**12,600**	**13,618**	**4,370**	**1**	**20,828**	**51,417**	**4,113**
Regulatory adjustment[2]	(9,489)	(10,455)	(1,204)	(1)	(3,736)	(24,885)	(1,991)
RWAs at end of day previous quarter end	3,111	3,163	3,166	-	17,092	26,532	2,122
Movement in risk levels	(606)	(5)	(729)	-	(1,411)	(2,751)	(221)
Model updates/changes	100	54	-	-	13	167	13
Methodology and policy	-	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-
Foreign exchange movements	-	-	-	-	-	-	-
Other[3]	134	(286)	59	-	-	(93)	(7)
RWAs at end of day current quarter end	2,739	2,926	2,496	-	15,694	23,855	1,907
Regulatory adjustment[2]	6,235	8,519	752	-	6,146	21,652	1,734
RWAs at end of reporting period	**8,974**	**11,445**	**3,248**	**0**	**21,840**	**45,507**	**3,641**

1. Previous reporting period was Q2'20.
2. Regulatory adjustment accounts for the difference between the RWA calculated based on the end-of-day position, compared with the RWA calculated based on the 60-day average position in the case of VaR/SVaR, and 12-week average position in the case of Incremental Risk Charge ("IRC") and CRM. 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 Risks not in VaR.

Over the third quarter, the decrease in Market Risk RWA under IMA was primarily attributable to risk levels as a result of reduced equity risks and lower sovereign exposures. Model updates in VAR model was partially offset by the regular interim parameter updates.

7. Liquidity Coverage Ratio

The Liquidity Coverage Ratio ("LCR"), as per the Commission Delegated Regulation (EU) 2015/61, requires credit institutions to maintain an amount of unencumbered high quality liquid assets that is sufficient to meet their estimated total net cash outflows over a prospective 30 calendar-day period of significant stress. MSI Group is compliant with the minimum required LCR of 100%.

The weighted adjusted value of the liquidity buffer is the value of the total high quality liquid assets after the application of both haircuts and any applicable cap. The weighted adjusted value of net cash outflows is calculated after the inflows and outflows rates are applied and after any applicable cap on inflows.

The liquidity buffer disclosed covers both Pillar I and Pillar II liquidity risk.

8. Regulatory Development

Basel Committee on Banking Supervision ("BCBS") – finalizing Basel III reforms

In December 2017, the BCBS released the final part of its Basel III reform package. The key amendments provide updates to the standardised measures for calculating capital requirements and include an RWA floor, calculated at 72.5% of total standardised RWA.

In January 2019, the BCBS published its revised final standard on the minimum capital requirements for market risk, also known as the Fundamental Review of the Trading Book ("FRTB"). The new regime:

- Clarifies the boundary between the banking book and trading book;
- Provides capital requirements for non-modellable risk factors;
- Introduces an internal models approach that uses expected shortfall methods; and
- Establishes a more risk-sensitive standardised approach that acts as a fall-back for the internal models method

Given the above proposals will need to be transposed into national/EU law, the timing and impact of the final outcome remains uncertain.

Amendments to the CRR

In June 2019, the European Commission published the final rules, known as CRD V and CRR II, that amend the existing prudential regime (CRD IV and CRR), and the Bank Recovery and Resolution Directive ("BRRD"). These rules implement parts of the Basel III reform package finalised before December 2017.

The CRD V/CRR II package includes: Total Loss-Absorbing Capacity ("TLAC"), FRTB, Standardised Approach to Counterparty Credit Risk ("SA-CRR"), Net Stable Funding Ratio ("NSFR"), revised leverage ratio, revised Large Exposure Framework, Intermediate Parent Undertaking ("IPU") requirement, and revised Pillar 3 disclosure requirements.

Final rules are effective 27 June 2019; however, implementation dates are staggered over a four year period, with TLAC applying from 27 June 2019 and the majority of new requirements applying from 28 June 2021.

On 16 November 2021, the HM Treasury, in conjunction with the PRA and FCA, announced that those parts of the CRR II that were expected to apply from 28 June 2021 are to be delayed until 1 January 2022 in the UK.

Investment Firm Regulation / Directive

In December 2019, the European Commission published the Investment Firm Regulation ("IFR") and Investment Firm Directive ("IFD") that introduce a tailored capital adequacy and liquidity framework for EU investment firms based on their size and type of business activity, and make changes to governance and remuneration requirements. Large systemic investment firms remain subject to existing requirements based on the CRR and CRD, whilst the new regime applies to other investment firms.

Final rules are effective 25 December 2019; however, implementation dates are staggered over an 18 month period, with the majority of the new requirements applying from 26 June 2021.

On 16 November 2021, the HM Treasury, in conjunction with the PRA and FCA, announced that the UK's Investment Firms Prudential Regime (IFPR) is to be delayed until 1 January 2022.

UK withdrawal from the EU

On 31 January 2020, the UK withdrew from the EU under the terms of a withdrawal agreement between the UK and the EU. The withdrawal agreement provides for a transition period to the end of December 2020, during which time the UK will continue to apply EU law as if it were a member state, and UK firms' passporting rights to provide financial services in EU jurisdictions will continue. The annual Pillar 3 disclosure for the year ended 31 December 2019 provides more detailed disclosure on the UK's withdrawal from the EU and the Group's new operating model.

The Company has transferred its branch operations in Poland and the Netherlands to MSESE. The Morgan Stanley Group expects that further clients of the Company, and activities currently transacted by the Company, including capital markets activities, will move from the Company to MSESE. The extent and timing of these moves will depend on client preferences and on licensing rules, which in turn will depend on the form of any future trading agreement between the UK and the EU in relation to financial services.

Following the reorganisations mentioned, the Group's principal activity and risks remain unchanged and the majority of current profitability and balance sheet is expected to remain within the Group.

The Morgan Stanley Group has prepared its European operation to be able to do business with its clients in the EU regardless of whether or not equivalence (or an alternative arrangement for financial services) is granted. Changes have been made to European operations in an effort to ensure that the Morgan Stanley Group can continue to provide cross-border banking and investment and other services in EU member states from within the EU where necessary.

As a result of the ongoing political uncertainty, it is currently unclear what the final post-Brexit structure of European operations will be for the Morgan Stanley Group overall. Given the potential negative disruption to regional and global financial markets, results of Morgan Stanley's operations and business prospects could be negatively affected.

9. Appendix I: Abbreviations

Term	Definition
AT1	Additional Tier 1
BCBS	Basel Committee on Banking Supervision
BIA	Basic Indicator Approach
BRRD	Bank Recovery and Resolution Directive
CCB	Capital Conservation Buffer
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1 Capital
CRD	Capital Requirements Directive
CRD IV	Capital Requirements Directive — EU implementation of Basel III
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
EBA	European Banking Authority
EMEA ALCO	EMEA Asset and Liability Committee
EU	European Union
FCA	Financial Conduct Authority
ICAAP	Internal Capital Adequacy Assessment Process
IFD	Investment Firm Directive
IFR	Investment Firm Regulation
ILAAP	Internal Liquidity Adequacy Assessment Process
IPU	Intermediate Parent Undertaking
IRB	Foundation Internal Ratings Based
IRC	Incremental Risk Charge
IMA	Internal Modelling Approach
IMM	Internal Models Method
ITS	Implementing Technical Standards
LCR	Liquidity Coverage Ratio
MCR	Minimum Capital Requirements
MM	Millions
MSI	Morgan Stanley International Limited
MSI Group	Morgan Stanley International Limited (and its subsidiaries)
MSIM Group	Morgan Stanley Investment Management Sub-Consolidated Group
MSIP	Morgan Stanley & Co. International plc
MTMM	Mark-to-Market Method
NSFR	Net Stable Funding Ratio
OTC	Over-the-counter
PRA	Prudential Regulation Authority
RTS	Regulatory Technical Standards
RWAs	Risk Weighted Assets
SA	Standardised Approach
SA-CRR	Standardised Approach to Counterparty Credit Risk
SFTs	Securities Financing Transactions
SREP	Supervisory Review and Evaluation Process
SVaR	Stressed Value at Risk
TCR	Total Capital Requirement
TLAC	Total Loss-Absorbing Capacity
UK	United Kingdom
US	United States
VaR	Value at Risk