Morgan Stanley International Limited Group

Pillar 3 Regulatory Disclosures Report

As at 30 September 2022

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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 2022 and no significant change is expected.

As at 30 September 2022, Morgan Stanley & Co. International plc (“MSIP”) and Morgan Stanley Europe Holding SE Group (“MSEHSE Group”) are reported as 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”). MSEHSE Group at a consolidated group level is under the direct supervision of the European Central Bank (“ECB”) under the Single Supervisory Mechanism.

The Pillar 3 disclosures as at 30 September 2022 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 MSEHSE Group as a large non-listed subsidiary of MSI Group.

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 the internal control procedures agreed upon at the management body level.

Anthony Mullineaux

Chief Financial Officer

Morgan Stanley International Limited

Key Metrics

Table 1a: Key Metrics (UK KM1) – MSI Group and MSIP

$MM MSI Group[1 2 3]	Q3'22	Q2'22	Q1'22	Q4'21	Q3'21
Available own funds					
Common Equity Tier 1 ("CET1") capital	21,526	22,055	21,614	22,238	22,544
Tier 1 ("T1") capital	25,826	26,355	25,114	25,738	26,044
Total capital	33,865	34,680	31,226	32,124	32,700
Risk-weighted exposure amounts					
Total risk-weighted exposure amount	165,740	166,499	177,213	164,374	170,087
Capital ratios (as a percentage of risk-weighted exposure amount)					
Common Equity Tier 1 ratio (%)	12.99%	13.25%	12.20%	13.50%	13.30%
Tier 1 ratio (%)	15.58%	15.83%	14.17%	15.70%	15.30%
Total capital ratio (%)	20.43%	20.83%	17.62%	19.50%	19.20%
Additional own funds requirements based on Supervisory Review and Evaluation Process ("SREP") (as a percentage of risk-weighted exposure amount)					
Additional CET1 SREP requirements (%)	1.68%	1.68%	1.43%		
Additional AT1 SREP requirements (%)	0.56%	0.56%	0.48%		
Additional Tier 2 ("T2") SREP requirements (%)	0.75%	0.75%	0.63%		
Total SREP own funds requirements (%)	10.99%	10.99%	10.54%		
Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
Capital conservation buffer (%)	2.50%	2.50%	2.50%		
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-		
Institution specific countercyclical capital buffer (%)	0.07%	0.05%	0.04%		
Systemic risk buffer (%)	-	-	-		
Global Systemically Important Institution buffer (%)	-	-	-		
Other Systemically Important Institution buffer	-	-	-		
Combined buffer requirement (%)	2.57%	2.55%	2.54%		
Overall capital requirements (%)	13.56%	13.54%	13.08%		
CET1 available after meeting the total SREP own funds requirements (%)	6.81%	7.07%	6.27%		
Leverage ratio					
Total exposure measure excluding claims on central banks	473,219	464,889	501,433	534,827	547,423
Leverage ratio excluding claims on central banks (%)	5.46%	5.67%	5.01%	4.81%	4.76%
Liquidity Coverage Ratio					
Total high-quality liquid assets ("HQLA") (Weighted value - average)	50,606	49,145	49,196	50,367	49,416
Cash outflows - Total weighted value	84,731	84,886	86,160	86,013	82,999
Cash inflows - Total weighted value	59,418	61,239	61,375	60,328	57,283
Total net cash outflows (adjusted value)	25,430	23,765	24,785	25,686	25,717
Liquidity coverage ratio (%)[4]	201.08%	206.79%	198.49%	196.09%	192.16%

1. The MSI Group is required to maintain a minimum ratio of Own Funds to Risk Weighted Exposure Amounts ("RWAs"). As at 30 September 2022, the MSI Group is in compliance with the PRA capital requirements.
2. Based on the guidance provided by the PRA under PS21/21, the MSI Group, a Leverage Ratio Requirements ("LREQ") entity, shall be subject to additional leverage ratio disclosure requirements beginning 1 January 2023.
3. Based on the guidance provided by the PRA under PS22/21, the MSI Group, shall be subject to Net Stable Funding Ratio ("NSFR") disclosure requirements beginning 1 January 2023.
4. From Q3'22, the calculation has changed to an average of 12-month data points instead of an average Total HQLA over Total net cash outflows.

MSI Group's own funds decreased in Q3'22 due to an increase in deductions. The leverage ratio has decreased in Q3'22 by 0.2% due to an increase in leverage exposure and decrease in Tier 1 capital.

$MM MSIP[1 2 3]	Q3'22	Q2'22	Q1'22	Q4'21	Q3'21
Available own funds					
Common Equity Tier 1 ("CET1") capital	17,158	17,266	16,836	17,022	17,195
Tier 1 ("T1") capital	21,458	21,566	20,336	20,522	20,695
Total capital	28,584	28,944	25,465	25,898	26,323
Risk-weighted exposure amounts					
Total risk-weighted exposure amount	128,528	137,181	151,654	136,748	142,027
Capital ratios (as a percentage of risk-weighted exposure amount)					
Common Equity Tier 1 ratio (%)	13.35%	12.59%	11.10%	12.40%	12.10%
Tier 1 ratio (%)	16.70%	15.72%	13.41%	15.00%	14.60%
Total capital ratio (%)	22.24%	21.10%	16.79%	18.90%	18.50%
Additional own funds requirements based on Supervisory Review and Evaluation Process ("SREP") (as a percentage of risk-weighted exposure amount)					
Additional CET1 SREP requirements (%)	1.65%	1.65%	1.51%		
Additional AT1 SREP requirements (%)	0.55%	0.55%	0.50%		
Additional Tier 2 ("T2") SREP requirements (%)	0.73%	0.73%	0.68%		
Total SREP own funds requirements (%)	10.93%	10.93%	10.69%		
Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
Capital conservation buffer (%)	2.50%	2.50%	2.50%		
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-		
Institution specific countercyclical capital buffer (%)	0.06%	0.05%	0.05%		
Systemic risk buffer (%)	-	-	-		
Global Systemically Important Institution buffer (%)	-	-	-		
Other Systemically Important Institution buffer	-	-	-		
Combined buffer requirement (%)	2.56%	2.55%	2.55%		
Overall capital requirements (%)	13.49%	13.48%	13.24%		
CET1 available after meeting the total SREP own funds requirements (%)	7.20%	6.44%	5.09%		
Leverage ratio					
Total exposure measure excluding claims on central banks	436,918	427,375	461,429	496,231	509,199
Leverage ratio excluding claims on central banks (%)	4.91%	5.05%	4.41%	4.14%	4.06%
Liquidity Coverage Ratio					
Total high-quality liquid assets ("HQLA") (Weighted value - average)	41,940	41,980	41,519	40,982	40,017
Cash outflows - Total weighted value	79,654	80,648	80,932	79,717	76,729
Cash inflows - Total weighted value	57,987	59,739	59,933	59,248	56,638
Total net cash outflows (adjusted value)	21,866	21,159	21,346	20,896	20,630
Liquidity coverage ratio (%)[4]	192.72%	198.41%	194.51%	196.13%	193.98%

1. MSIP is required to maintain a minimum ratio of Own Funds to RWAs. As at 30 September 2022, MSIP is in compliance with the PRA capital requirements.
2. Based on the guidance provided by the PRA under PS21/21, MSIP a LREQ entity, shall be subject to additional leverage ratio disclosure requirements beginning 1 January 2023.
3. Based on the guidance provided by the PRA under PS22/21, MSIP shall be subject to NSFR disclosure requirements beginning 1 January 2023.
4. From Q3'22, the calculation has changed to an average of 12-month data points instead of an average Total HQLA over Total net cash outflows.

MSIP's own funds decreased in Q3'22 due to increase in deductions. The leverage ratio has decreased in Q3'22 by 0.1% due to an increase in leverage exposure and decrease in Tier 1 capital.

Table 1b: Key metrics (EU KM1) – MSEHSE Group
$MM[2]

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
	MSEHSE Group [1 5]	**Q3'22**	**Q2'22**	**Q1'22**	**Q4'21**	**Q3'21**
	Available own funds (amounts)					
1	Common Equity Tier 1 ("CET1") capital	4,153	4,425	4,020	3,885	3,715
2	Tier 1 capital	5,134	5,473	4,684	4,568	4,410
3	**Total capital**	6,115	6,522	5,791	5,707	5,569
	Risk-weighted exposure amounts					
4	Total risk exposure amount	33,031	30,052	24,191	24,163	24,433
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 Ratio (%)	12.57%	14.72%	16.6%	16.1%	15.2%
6	Tier 1 Ratio (%)	15.54%	18.21%	19.4%	18.9%	18.0%
7	**Total Capital Ratio (%)**	18.51%	21.70%	23.9%	23.6%	22.8%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	2.75%	2.75%	2.75%	2.75%	
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.55%	1.55%	1.55%	1.55%	
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.06%	2.06%	2.06%	2.06%	
EU 7d	Total SREP own funds requirements (%)	10.75%	10.75%	10.75%	10.75%	
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	-	
9	Institution specific countercyclical capital buffer (%)	0.10%	0.04%	0.05%	0.04%	
EU 9a	Systemic risk buffer (%)	-	-	-	-	
10	Global Systemically Important Institution buffer (%)	-	-	-	-	
EU 10a	Other Systemically Important Institution buffer (%)	-	-	-	-	
11	Combined buffer requirement (%)	2.60%	2.54%	2.55%	2.54%	
EU 11a	Overall capital requirements (%)	13.35%	13.29%	13.30%	13.29%	
12	CET1 available after meeting the total SREP own funds requirements (%)	6.53%	8.68%	10.57%	10.03%	
	Leverage Ratio					
13	Total exposure measure	85,086	81,630	81,392	65,339	69,695
14	**Leverage ratio (%)**	6.03%	6.71%	5.8%	7.0%	6.3%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-	-	-	
EU 14b	of which: to be made up of CET1 capital (percentage points)	-	-	-	-	
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement (%)	-	-	-	-	
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	9,789	8,458	8,958	9,522	9,522
EU 16a	Cash outflows - Total weighted value	19,455	16,969	14,822	12,696	9,812
EU 16b	Cash inflows - Total weighted value	13,809	12,886	10,056	6,574	3,688
16	Total net cash outflows (adjusted value)	6,196	4,747	5,295	6,475	6,237
17	Liquidity coverage ratio (%)[3 4]	168.67%	178.19%	169.16%	147.06%	152.66%

1. MSEHSE Group is required to maintain a minimum ratio of Own Funds to RWAs. As at 30 September 2022, MSEHSE Group is in compliance with the regulatory capital requirements.
2. MSEHSE Group reporting currency is EUR. All values have been converted from EUR to USD at a month-end spot rate of 0.98065
3. The quarterly Liquidity Coverage Ratio ("LCR") balances reflect the average of the last 12-month period, which have been converted from EUR to USD at respective month-end FX rate (i.e., average FX rate 1.00445).
4. From Q3'22, the calculation has changed to an average of 12-month data points instead of an average Total HQLA over Total net cash outflows.
5. MSEHSE Group NSFR is disclosed semi-annually.

MSEHSE Group's own funds decreased in Q3'22 primarily due to FX movement in EUR/USD. The leverage ratio has decreased in Q3'22 by 0.7% mainly due to an increase in leverage exposure.

Basis of Consolidation

The MSI Group completes its prudential consolidation in compliance with Capital Requirements Regulation ("CRR") Part One, Title II Chapter 2 as amended, PRA Rulebook on Groups and the PRA's Supervisory Statement on Groups (SS15/13), 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 by the CRR. The most significant subsidiaries of the MSI Group are MSIP and MSEHSE Group, 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 disclosure can be accessed at https://www.morganstanley.com/about-us-ir/lcr-disclosures-us. For further information on the MSI Group, please refer to the annual disclosure at Pillar 3 Disclosures - UK - Investor Relations | Morgan Stanley.

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

MSIP, a London-based broker-dealer subsidiary is also conditionally registered with the SEC as a security-based swap dealer and provisionally registered with the Commodity Future Trading Commission ("CFTC") as a swap dealer. Currently MSIP is complying with home country capital requirements in lieu of SEC and CFTC capital requirements pursuant to applicable substituted compliance rules and, for the CFTC, interim no-action relief.

Within the MSEHSE Group, Morgan Stanley Europe SE ("MSESE") as a Germany-based broker dealer is also conditionally registered with the SEC as a security-based swap dealer and provisionally registered with the CFTC as a swap dealer. Currently MSESE is complying with home-country capital requirements in lieu of SEC and CFTC capital requirements pursuant to interim no-action relief.

2. Regulatory Frameworks

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, e.g., references to the CRR as amended.

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 the Disclosure (CRR) section of the PRA Rulebook applicable to CRR Firms.

Both MSIP and MSEHSE Group are considered large subsidiaries of the MSI Group for Pillar 3 disclosures.

MSESE as a large subsidiary of the MSI Group is exempted from the application of Article 6(1) of the CRR, pursuant to Article 7 of the CRR and section 2a para. 2 of the German Banking Act (Kreditwesengesetz – KWG). As a result, for ‘large subsidiary’ disclosure purposes, the MSEHSE Group is disclosed instead.

3. Capital Management

The MSI Group manages capital in accordance with regulatory requirements and the results of its ICAAP. Further details on the MSI Group’s capital management can be found in the MSI and MSIP annual reports.

As at 30 September 2022, the MSI Group Total Capital Requirement (“TCR”) was $18.2Bn, equivalent to 10.99% of RWAs. The Combined Buffer as at 30 September 2022 was 2.57%, comprising the Capital Conservation Buffer of 2.50% and a Countercyclical Capital Buffer of 0.07%.

Russia and Ukraine War

The MSI Group is monitoring the war in Ukraine and its impact on both the Ukrainian and Russian economies, as well as related impacts on other world economies and the financial markets. The MSI Group’s direct exposure to both Russia and Ukraine is limited.

Morgan Stanley Group’s activities in Russia are limited to helping global clients address and close out pre-existing obligations.

4. Total Loss-Absorbing Capacity

The MSI and MSEHSE Groups are 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 recapitalise in resolution. As at 30 September 2022, 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"). The MSEHSE Group will be subject to an internal Minimum Required Eligible Liabilities ("MREL") requirement from 1 January 2024.

Morgan Stanley's preferred resolution strategy is a Single Point of Entry ("SPOE") strategy. Further information on the 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 – MSI Group

$MM MSI Group[1]	Q3'22	Q2'22	Q1'22	Q4'21	Q3'21
Total loss absorbing capacity ("TLAC") available	**41,793**	**42,608**	**41,193**	**40,127**	**40,432**
Total RWAs at the level of the resolution group	**165,740**	**166,499**	**177,213**	**164,374**	**170,087**
TLAC as a percentage of RWA (row 1/row2) (%)	25.22%	25.59%	23.2%	24.4%	23.8%
Leverage ratio exposure measure at the level of the resolution group	473,219	464,889	501,433	534,827	547,423
TLAC at a percentage of leverage ratio exposures measure (row1/row4) (%)	8.83%	9.17%	8.2%	7.5%	7.4%

1. As at 30 September 2022, the MSI Group is in compliance with the TLAC requirements.

MSI Group decrease in TLAC available in Q3'22 is driven by decrease in own funds.

Table 3 provides details of the composition of the MSEHSE Group's iTLAC.

Table 3: TLAC composition (EU iTLAC) – MSEHSE Group

	$MM MSEHSE Group[1]	b Non-EU G-SII requirement for own funds and eligible liabilities (internal TLAC)
EU-3	Common Equity Tier 1 capital (CET1)	4,153
EU-4	Eligible Additional Tier 1 instruments	392
EU-5	Eligible Tier 2 instruments	-
EU-6	Eligible own funds	4,545
EU-7	Eligible liabilities	2,452
EU-9b	Own funds and eligible liabilities items after adjustments	6,997
Total risk exposure amount and total exposure measure		
EU-10	Total risk exposure amount	33,031
EU-11	Total exposure measure	85,086
Ratio of own funds and eligible liabilities		
EU-12	Own funds and eligible liabilities (as a percentage of RWA)	21.18%
EU-14	Own funds and eligible liabilities (as a percentage of leverage exposure)	8.22%
EU-16	CET1 (as a percentage of RWA) available after meeting the entity's requirements	3.80%
EU-17	Institution-specific combined buffer requirement	2.60%
Requirements		
EU-18	Requirement expressed as a percentage of the total risk exposure amount	16.20%
EU-20	Internal TLAC expressed as percentage of the total exposure measure	6.08%
Memorandum items		
EU-22	Total amount of excluded liabilities referred to in Article 72a(2) CRR	110,193

1. As at 30 September 2022, the MSEHSE Group is in compliance with the iTLAC requirements.

MSEHSE Group eligible liabilities increased in Q3'22 due to senior sub debt issuance for $1Bn.

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 2022 exceed the proposed minimum requirement of 3.25% that will apply once new legislation comes into effect from 1 January 2023. MSEHSE Group leverage ratio is also in excess of its 3% minimum requirement. 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. Leverage exposures for MSI Group as well as MSIP are regularly calculated and reported to EMEA Asset and Liability Committee ("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.

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 the approved internal modelling approach - the Internal Model Method ("IMM") for CCR exposure. Standardised methods are applied for exposures not covered by internal models. Foundation Internal Ratings Based approach ("IRB") or Standardised Approach ("SA") Risk Weights are applied as applicable.

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

Settlement risk refers to the capital requirement that covers the risk due to the possibility that a counterparty will fail to deliver on the terms of a contract at the agreed-upon time.

Securitisation exposures are a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranched. Payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures. 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. For further discussion on credit risk, counterparty credit risk, market risk and operational risk, please refer to the specific sections within this document.

RWA Overview

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 Capital Requirements Directive (“CRD”).

Table 4: Overview of risk weighted exposure amounts (UK OV1) – MSI Group and MSIP

	MSI Group			MSIP		
$MM	RWAs Q3'22	RWAs Q2'22	TOFR Q3'22	RWAs Q3'22	RWAs Q2'22	TOFR Q3'22
Credit risk (excluding CCR)	**14,464**	**15,676**	**1,157**	**10,633**	**10,952**	**851**
Of which standardised approach	4,601	4,261	368	2,962	2,405	237
Of which the Foundation IRB (“FIRB”) approach	6,353	7,581	508	4,026	4,587	322
Of which slotting approach	-	-	-	-	-	-
Of which equities under the simple risk weighted approach[1]	3,510	3,834	281	3,645	3,960	292
Of which the Advanced IRB (“AIRB”) approach	-	-	-	-	-	-
Counterparty credit risk – CCR	**63,612**	**64,905**	**5,089**	**54,938**	**56,216**	**4,395**
Of which standardised approach	11,445	10,855	916	10,932	10,377	874
Of which internal model method (“IMM”)	28,134	28,462	2,251	22,958	23,436	1,837
Of which exposures to a CCP	862	1,005	69	724	724	58
Of which credit valuation adjustment – CVA	17,567	18,611	1,405	14,887	16,060	1,191
Of which other CCR	5,604	5,972	448	5,437	5,619	435
Settlement risk	**240**	**456**	**19**	**244**	**399**	**20**
Securitisation exposures in the non-trading book (after the cap)	**2,968**	**3,353**	**237**	**2,965**	**3,332**	**237**
Of which SEC-IRBA approach	-	-	-	-	-	-
Of which SEC-ERBA (including IAA)	721	872	57	718	851	57
Of which SEC-SA approach	-	-	-	-	-	-
Of which 1250%/ deduction	2,247	2,481	180	2,247	2,481	180
Position, foreign exchange and commodities risks (Market risk)	**64,510**	**62,687**	**5,161**	**47,250**	**47,004**	**3,780**
Of which standardised approach	12,661	12,771	1,013	6,009	6,102	481
Of which IMA	51,849	49,916	4,148	41,241	40,902	3,299
Large exposures	**5,594**	**5,070**	**448**	**2,431**	**9,211**	**194**
Operational risk	**14,352**	**14,352**	**1,148**	**10,067**	**10,067**	**805**
Of which basic indicator approach	14,352	14,352	1,148	10,067	10,067	805
Of which standardised approach	-	-	-	-	-	-
Of which advanced measurement approach	-	-	-	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)[1]	**503**	**630**	**40**	**521**	**975**	**42**
Total	**165,740**	**166,499**	**13,259**	**128,528**	**137,181**	**10,282**

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.

MSI Group RWAs decreased in Q3’22 primarily due to reduction in Advanced CVA, decrease in cash, partially offset by increase in Risks Not in VaR (“RNIV”).

MSIP RWAs decreased in Q3’22 due to reduction in concentration risk mainly driven by change in the non-core group large exposures.

MSEHSE Group RWAs increased due to higher market and credit risks.

Credit Risk RWA flow statements

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

$MM	MSI Group	MSIP
	RWA	RWA
RWA as at the end of the previous reporting period[1]	**7,581**	**4,587**
Asset size	(1,123)	(514)
Asset quality	(105)	(47)
Model updates	-	-
Methodology and policy	-	-
Acquisitions and disposals	-	-
Foreign exchange movements	-	-
Other	-	-
RWA as at the end of the reporting period	**6,353**	**4,026**

1. Previous reporting period was Q2'22.

RWAs under the IRB approach decreased in Q3'22 due to a reduction in cash at bank.

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

$MM	MSI Group	MSIP
	RWA	RWA
RWA as at the end of the previous reporting period[1]	**28,462**	**23,436**
Asset size	613	172
Credit quality of counterparties	(941)	(650)
Model updates (IMM only)	-	-
Methodology and policy (IMM only)	-	-
Acquisitions and disposals	-	-
Foreign exchange movements	-	-
Other	-	-
RWA as at the end of the current reporting period	**28,134**	**22,958**

1. Previous reporting period was Q2'22.

RWAs for exposures under the IMM remain relatively stable in Q3'22.

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 MSI Group	VaR	SVaR	IRC	Comprehensive risk measure	Other[4]	Total RWAs	TOFR
RWAs at previous period end[1]	**5,949**	**14,827**	**5,625**	**0**	**23,515**	**49,916**	**3,993**
Regulatory adjustment[2]	(3,723)	(10,669)	(1,198)	-	(11,748)	(27,338)	(2,187)
RWAs at the previous quarter-end (end of the day)	2,226	4,158	4,427	-	11,767	22,578	1,806
Movement in risk levels	(704)	(29)	1,096	-	1,017	1,380	110
Model updates/changes	-	-	-	-	-	-	-
Methodology and policy	-	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-
Foreign exchange movements	(18)	(67)	(46)	-	(122)	(253)	(20)
Other[3]	336	298	7	-	157	798	64
RWAs at the end of the disclosure period (end of the day)	1,840	4,360	5,484	-	12,819	24,503	1,960
Regulatory adjustment[2]	5,061	9,962	-	4	12,319	27,346	2,188
RWAs at the end of the disclosure period	**6,901**	**14,322**	**5,484**	**4**	**25,138**	**51,849**	**4,148**
MSIP							
RWAs at previous period end[1]	**5,120**	**11,853**	**4,884**	**0**	**19,045**	**40,902**	**3,272**
Regulatory adjustment[2]	(3,183)	(8,696)	(1,037)	-	(9,174)	(22,090)	(1,767)
RWAs at the previous quarter-end (end of the day)	1,937	3,157	3,847	-	9,871	18,812	1,505
Movement in risk levels	(592)	(67)	794	-	1,015	1,150	92
Model updates/changes	-	-	-	-	-	-	-
Methodology and policy	-	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-
Foreign exchange movements	-	-	-	-	-	-	-
Other[3]	239	295	8	-	157	699	56
RWAs at the end of the disclosure period (end of the day)	1,584	3,385	4,649	-	11,043	20,661	1,653
Regulatory adjustment[2]	4,069	6,781	-	4	9,726	20,580	1,646
RWAs at the end of the disclosure period	**5,653**	**10,166**	**4,649**	**4**	**20,769**	**41,241**	**3,299**

1. Previous reporting period was Q2'22.
2. Regulatory adjustment 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 Value at Risk ("VaR") / Stressed Value at Risk ("SVaR") and 12-week average position in the case of Incremental Risk Charge ("IRC") and Comprehensive Risk Measure ("CRMe"). 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.

MSI Group modelled market risk RWAs increased in Q3'22 primarily due to changes in fixed income risk profile.

7. Liquidity Coverage Ratio

The MSI Group LCR decreased from 207% to 201%, driven by an increase in net average cash outflows partially offset by an increase in average HQLA. The MSIP Liquidity Coverage Ratio ("LCR") decreased from 199% to 193%, driven by an increase in net average cash outflows.

The most significant drivers of MSI Group and MSIP 's cash outflow amounts this quarter were secured wholesale funding, unsecured wholesale funding and outflows related to derivative exposures. MSI Group and MSIP's cash inflow amounts this quarter were primarily driven by secured lending which includes reverse repurchase transactions, securities borrowed and margin loan transactions. HQLA primarily comprises of Level 1 assets that includes government bonds and cash balances with central banks.

The MSI Group and MSIP fund themselves 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.

MSI Group and MSIP are participants 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.

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.

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 that are not included in the calculation used to determine the Firm's compliance with LCR requirements.

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

$MM	Total unweighted value				Total weighted value			
MSI Group[1]	30-Sep-2022	30-Jun-2022	31-Mar-2022	31-Dec-2021	30-Sep-2022	30-Jun-2022	31-Mar-2022	31-Dec-2021
Number of data points used in the calculation of averages	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**
High-Quality Liquid Assets								
Total high-quality liquid assets (HQLA)					50,606	49,145	49,196	50,367
Cash-Outflows								
Retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
Stable deposits	-	-	-	-	-	-	-	-
Less stable deposits	-	-	-	-	-	-	-	-
Unsecured wholesale funding	18,464	17,078	16,939	16,973	18,464	17,078	16,939	16,973
Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
Non-operational deposits (all counterparties)	18,073	16,656	16,457	16,527	18,073	16,656	16,457	16,527
Unsecured debt	391	422	482	446	391	422	482	446
Secured wholesale funding					42,623	44,279	45,281	44,949
Additional requirements	30,453	30,307	30,177	29,802	20,417	20,193	20,408	20,225
Outflows related to derivative exposures and other collateral requirements	24,022	23,087	22,745	22,407	19,007	18,727	18,939	18,805
Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
Credit and liquidity facilities	6,431	7,220	7,432	7,395	1,410	1,466	1,469	1,420
Other contractual funding obligations	46,929	47,291	47,101	46,549	1,160	1,006	987	1,189
Other contingent funding obligations	4,278	4,840	5,259	6,073	2,067	2,330	2,545	2,678
Total Cash Outflows					**84,731**	**84,886**	**86,160**	**86,014**
Cash Inflows								
Secured lending (e.g., reverse repos)	220,031	220,173	216,519	213,764	41,829	43,892	44,352	43,668
Inflows from fully performing exposures	11,423	12,063	12,509	12,980	10,517	10,968	11,135	11,322
Other cash inflows	8,367	7,708	7,160	6,588	8,367	7,708	7,160	6,588
(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)					1,295	1,329	1,272	1,250
(Excess inflows from a related specialised credit institution)					-	-	-	-
Total Cash Inflows	**239,821**	**239,944**	**236,188**	**233,332**	**59,418**	**61,239**	**61,375**	**60,328**
Fully exempt inflows	-	-	-	-	-	-	-	-
Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
Inflows Subject to 75% Cap	190,766	190,917	188,636	187,554	59,418	61,239	61,375	60,328
					Total Adjusted Value			
Liquidity Buffer					**50,606**	**49,145**	**49,196**	**50,367**
Total Net Cash Outflows					**25,430**	**23,765**	**24,785**	**25,686**
Liquidity Coverage Ratio (%)[2]					**201.08%**	**206.79%**	**198.49%**	**196.09%**

1. All cash inflows and outflows shown are at the full unweighted/weighted value and do not reflect the phase in of LCR requirements.
2. From Q3'22, the calculation has changed to an average of 12-month data points instead of an average HQLA / Liquidity Buffer over Total Net Cash Outflows.

$MM	Total unweighted value				Total weighted value			
MSIP[1]	30-Sep-2022	30-Jun-2022	31-Mar-2022	31-Dec-2021	30-Sep-2022	30-Jun-2022	31-Mar-2022	31-Dec-2021
Number of data points used in the calculation of averages	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**
High-Quality Liquid Assets								
Total high-quality liquid assets (HQLA)					41,940	41,980	41,519	40,982
Cash-Outflows								
Retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
Stable deposits	-	-	-	-	-	-	-	-
Less stable deposits	-	-	-	-	-	-	-	-
Unsecured wholesale funding	16,716	16,502	15,814	15,205	16,716	16,502	15,814	15,205
Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0	0	0	0	0
Non-operational deposits (all counterparties)	16,325	16,080	15,332	14,759	16,325	16,080	15,332	14,759
Unsecured debt	391	422	482	446	391	422	482	446
Secured wholesale funding					43,213	44,881	45,901	45,514
Additional requirements	21,500	20,260	19,505	18,930	16,494	15,920	15,693	15,314
Outflows related to derivative exposures and other collateral requirements	21,498	20,259	19,504	18,929	16,493	15,919	15,692	15,313
Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
Credit and liquidity facilities	2	1	1	1	1	1	1	1
Other contractual funding obligations	48,851	49,213	48,942	47,872	1,120	975	952	984
Other contingent funding obligations	4,366	4,920	5,313	6,114	2,111	2,370	2,572	2,700
Total Cash Outflows					**79,654**	**80,648**	**80,932**	**79,717**
Cash Inflows	-	-	-	-	-	-	-	-
Secured lending (e.g., reverse repos)	225,020	224,490	220,041	216,302	41,951	43,967	44,372	43,676
Inflows from fully performing exposures	10,320	10,864	11,375	12,178	9,423	9,779	10,011	10,529
Other cash inflows	7,778	7,206	6,730	6,247	7,778	7,206	6,730	6,247
(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)					1,165	1,213	1,180	1,204
(Excess inflows from a related specialised credit institution)					-	-	-	-
Total Cash Inflows	**243,118**	**242,560**	**238,146**	**234,727**	**57,987**	**59,739**	**59,933**	**59,248**
Fully exempt inflows	0	0	0	0	0	0	0	0
Inflows Subject to 90% Cap	0	0	0	0	0	0	0	0
Inflows Subject to 75% Cap	194,251	193,631	190,521	188,895	57,987	59,739	59,933	59,248
					Total Adjusted Value			
Liquidity Buffer					**41,940**	**41,980**	**41,519**	**40,982**
Total Net Cash Outflows					**21,866**	**21,159**	**21,346**	**20,896**
Liquidity Coverage Ratio (%)[2]					**192.72%**	**198.41%**	**194.51%**	**196.13%**

1. All cash inflows and outflows shown are at the full unweighted/weighted value and do not reflect the phase in of LCR requirements.
2. From Q3'22, the calculation has changed to an average of 12-month data points instead of an average HQLA / Liquidity Buffer over Total Net Cash Outflows.

8. Regulatory Development

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 RWA requirements through the Fundamental Review of the Trading Book, new CVA RWA requirements, revisions to the credit RWA calculations covering both standardised and advanced treatments, and a new RWA 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.

Following the impact of the COVID-19 pandemic and its impact on the global banking system, the BCBS deferred the remaining standards of the Basel III reform package by one year to 1 January 2023.

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. In the European Union ("EU"), the European Commission published draft rules in October 2021 and they continue to be reviewed as part of the EU legislative process. At this stage the rules are expected to also be effective 1 January 2025.

9. Appendix I: Abbreviations

Term	Definition
AIRB	Advanced Internal Ratings Based
AT1	Additional Tier 1 Capital
BCBS	Basel Committee on Banking Supervision
BIA	Basic Indicator Approach
CCR	Counterparty Credit Risk
CET1	Common Equity Tier 1 Capital
CFTC	Commodity Future Trading Commission
CRD	Capital Requirements Directive
CRMe	Comprehensive Risk Measure
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
ECB	European Central Bank
EMEA	Europe, the Middle East and Africa
EMEA ALCO	EMEA Asset and Liability Committee
EU	European Union
FCA	Financial Conduct Authority
FIRB	Foundation Internal Ratings Based
G-SIIs	Global Systematically Important Institutions
HQLA	High Quality Liquid Assets
IAA	Internal Assessment Approach
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IMA	Internal Modelling Approach
IMM	Internal Models Method
IRB	Internal Ratings Based
IRC	Incremental Risk Charge
LCR	Liquidity Coverage Ratio
LREQ	Leverage Ratio Requirements
MM	Millions
MSEHSE Group	Morgan Stanley Europe Holding SE Group
MSESE	Morgan Stanley Europe SE
MSI	Morgan Stanley International Limited
MSI Group	Morgan Stanley International Limited (and its subsidiaries)
MSIP	Morgan Stanley & Co. International plc
MREL	Minimum Required Eligible Liabilities
NSFR	Net Stable Funding Ratio
PRA	Prudential Regulation Authority
RNIV	Risks Not in VaR
RWAs	Risk Weighted Exposure Amounts
SA	Standardised Approach
SEC	US Securities and Exchange Commission
SPOE	Single Point of Entry
SREP	Supervisory Review and Evaluation Process
SVaR	Stressed Value at Risk
T1	Tier 1
T2	Tier 2
TCR	Total Capital Requirement
TLAC	Total Loss-Absorbing Capacity
TOFR	Total Own Funds Requirements
UK	United Kingdom
VaR	Value at Risk