Morgan Stanley International Limited Group

Pillar 3 Quarterly Disclosure Report

As at 30 September 2019

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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 2019.

As at 30 September 2019, the following entities within the MSI Group were authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and Financial Conduct Authority ("FCA"):

- Morgan Stanley & Co. International plc ("MSIP")
- Morgan Stanley Bank International Limited ("MSBIL")

The following entities within the MSI Group form the MSIM sub-consolidated group ("MSIM Group") and were authorised and regulated by the FCA:

- Morgan Stanley Investment Management Limited ("MSIM")
- Morgan Stanley Investment Management (ACD) Limited ("MSIM ACD")

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]	**Q3'19**	**Q2'19**	**Q1'19**	**Q4'18**
Common Equity Tier 1 Capital [2]	18,815	19,072	18,898	18,667
Additional Tier 1 Capital	3,500	3,500	3,500	3,500
Tier 1 Capital	**22,315**	**22,572**	**22,398**	**22,167**
Tier 2 Capital	**5,358**	**5,369**	**5,376**	**5,370**
Total Own Funds	**27,673**	**27,941**	**27,774**	**27,537**
Risk Weighted Assets	137,019	132,222	130,495	130,963
Common Equity Tier 1 Ratio	13.7%	14.4%	14.5%	14.3%
Tier 1 Capital Ratio	16.3%	17.1%	17.2%	16.9%
Total Capital Ratio	20.2%	21.1%	21.3%	21.0%
Leverage Exposure	468,322	455,281	440,401	421,386
Leverage Ratio	4.8%	5.0%	5.1%	5.3%
Liquidity Coverage Ratio	228%	232%	227%	223%

MSIP[1]	**Q3'19**	**Q2'19**	**Q1'19**	**Q4'18**
Common Equity Tier 1 Capital [3]	15,043	15,113	15,112	15,648
Additional Tier 1 Capital	3,500	3,500	3,500	3,500
Tier 1 Capital	**18,543**	**18,613**	**18,612**	**19,148**
Tier 2 Capital	**5,000**	**5,000**	**5,000**	**5,000**
Total Own Funds	**23,543**	**23,613**	**23,612**	**24,148**
Risk Weighted Assets	129,381	126,670	120,789	124,950
Common Equity Tier 1 Ratio	11.6%	11.9%	12.5%	12.5%
Tier 1 Capital Ratio	14.3%	14.7%	15.4%	15.3%
Total Capital Ratio	18.2%	18.6%	19.5%	19.3%
Leverage Exposure	455,937	445,514	428,313	417,315
Leverage Ratio [4]	4.1%	4.2%	4.3%	4.6%

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 2019, 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 2019 are $1,684MM, as at 30 June 2019 were $1,594MM.
3. MSIP's adjustments to CET1 due to prudential filters as at 30 September 2019 are $1,643MM, as at 30 June 2019 were $1,552MM.
4. Leverage is disclosed on a fully phased-in basis and made in accordance with the European Union ("EU") Delegated Act.

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 United States ("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 2019 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.

The MSI Group conducts an ICAAP at least annually in order to meet its obligations under CRD IV.

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. Certain elements of the Pillar 2A requirement are a fixed quantum whilst others are a proportion of RWAs and are based on a point in time assessment. As of 30 September 2019 the MSI Group TCR was 11.4%. In addition, the PRA sets a buffer if required in addition to the Basel Combined Buffers, which is available to support the MSI Group in a stressed market environment.

The Countercyclical Capital Buffer ("CCyB") was introduced to ensure that excess growth in specific countries is accounted for and increases the minimum capital ratios by between 0% and 2.5% and must be met with Common Equity Tier 1 ("CET1") Capital. As of 30 September 2019, the CCyB for the MSI Group stood at 0.3%.

The Capital Conservation Buffer ("CCB") of 2.5% requires banks to build up a capital buffer that can be utilised to absorb losses during periods of stress, whilst remaining compliant with minimum requirements and must be met with CET1 capital.

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.

On 15 October, the PRA granted both MSI Group and MSIP permission to include the interim profits for the period beginning 01 January 2019 and ending on 30 June 2019 in Common Equity Tier 1 capital.

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 United Kingdom ("UK") regulated subsidiaries.

4. Total Loss-Absorbing Capacity

MSI Group is subject to internal Total Loss-Absorbing Capacity ("TLAC") requirements via CRR II, which came into force in June 2019. 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 initially 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 G-SII. The eligibility criteria for internal TLAC only takes into account instruments owned by the ultimate parent undertaking and issued directly or indirectly through other entities within the same group.

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	Q3'19	Q2'19
Total loss absorbing capacity (TLAC) available	30,173	30,441
Total RWA at the level of the resolution group	137,019	132,222
TLAC as a percentage of RWA[1]	22.0%	23.0%
Leverage ratio exposure measure at the level of the resolution group	468,322	455,281
TLAC at a percentage of leverage ratio exposures measure[1]	6.4%	6.7%

1. As at 30 September 2019, 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.

Although there is no current binding leverage requirement under CRD IV, the 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 and the MSIP leverage ratio have decreased (0.2)% and (0.1)% respectively from 30 June 2019 to 30 September 2019, primarily due to an increase in exposures.

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 MSI Group	RWAs Q3'19	RWAs Q2'19	MCR Q3'19
Credit risk (excluding CCR)	**12,548**	**12,960**	**1,004**
Of which standardised approach	4,559	4,006	365
Of which foundation IRB (FIRB) approach	5,117	5,897	409
Of which advanced IRB (AIRB) approach	-	-	-
Of which equity IRB under the simple risk-weighted approach or the IMA	2,872	3,057	230
CCR	**56,455**	**51,209**	**4,516**
Of which mark-to-market	10,466	10,263	837
Of which original exposure	-	-	-
Of which standardised approach	348	219	28
Of which internal model method	21,567	19,313	1,725
Of which Financial collateral comprehensive method (for SFTs)	7,844	7,537	628
Of which risk exposure amount for contributions to the default fund of a CCP	1,200	1,117	96
Of which CVA	15,030	12,760	1,202
Settlement risk	**164**	**78**	**13**
Securitisation exposures in banking book (after cap)	**160**	**178**	**13**
Of which IRB	102	118	8
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	58	60	5
Market risk	**45,442**	**48,055**	**3,635**
Of which standardised approach	12,570	12,935	1,005
Of which IMA	32,872	35,120	2,630
Large exposures	**10,906**	**8,365**	**873**
Operational risk	**11,037**	**11,037**	**883**
Of which basic indicator approach	11,037	11,037	883
Of which standardised approach	-	-	-
Of which advanced measurement approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**307**	**340**	**25**
Floor adjustment	-	-	-
Total	**137,019**	**132,222**	**10,962**
MSIP			
Credit risk (excluding CCR)	**9,745**	**10,313**	**780**
Of which standardised approach	3,008	2,621	241
Of which foundation IRB (FIRB) approach	3,978	4,760	318
Of which advanced IRB (AIRB) approach	-	-	-
Of which equity IRB under the simple risk-weighted approach or the IMA	2,759	2,932	221
CCR	**54,866**	**50,255**	**4,389**
Of which mark-to-market	10,159	10,326	813
Of which original exposure	-	-	-
Of which standardised approach	323	212	26
Of which internal model method	20,958	18,980	1,677
Of which Financial collateral comprehensive method (for SFTs)	8,187	7,922	654
Of which risk exposure amount for contributions to the default fund of a CCP	721	692	58
Of which CVA	14,518	12,123	1,161
Settlement risk	**151**	**68**	**12**
Securitisation exposures in banking book (after cap)	**160**	**178**	**13**
Of which IRB	102	118	8
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	58	60	5
Market risk	**39,679**	**42,526**	**3,174**
Of which standardised approach	6,990	7,448	559
Of which IMA	32,689	35,078	2,615
Large exposures	**16,082**	**14,620**	**1,286**
Operational risk	**8,361**	**8,361**	**669**
Of which basic indicator approach	8,361	8,361	669
Of which standardised approach	-	-	-
Of which advanced measurement approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**337**	**349**	**27**
Floor adjustment	-	-	-
Total	**129,381**	**126,670**	**10,350**

Over the third quarter, RWAs increased, primarily driven by Counterparty Credit Risk and Large exposures, partially offset by Market Risk.

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]	**5,897**	**472**	**4,760**	**380**
Asset size	(680)	(55)	(686)	(54)
Asset quality	(100)	(8)	(96)	(8)
Model updates	-	-	-	-
Methodology and policy	-	-	-	-
Acquisitions and disposals	-	-	-	-
Foreign exchange movements	-	-	-	-
Other	-	-	-	-
RWAs at the end of the reporting period	**5,117**	**409**	**3,978**	**318**

1. Previous reporting period was Q2'19.

Over the third quarter, MSI Group and MSIP asset size changed primarily due to a reduction in non-trading book assets and cash deposits.

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]	**19,313**	**1,545**	**18,980**	**1,518**
Asset size	3,298	263	2,988	240
Credit quality of counterparties	(331)	(26)	(297)	(24)
Model updates (IMM only)	(713)	(57)	(713)	(57)
Methodology and policy (IMM only)	-	-	-	-
Acquisitions and disposals	-	-	-	-
Foreign exchange movements	-	-	-	-
Other	-	-	-	-
RWAs at the end of the reporting period	**21,567**	**1,725**	**20,958**	**1,677**

1. Previous reporting period was Q2'19.

Over the third quarter, the IMM RWA increase was mainly due to portfolio and market movements, partially offset by the decrease from model enhancement for Interest Rate derivatives.

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]	**3,754**	**8,589**	**5,009**	**1**	**17,767**	**35,120**	**2,810**
Regulatory adjustment[2]	(2,200)	(4,340)	(963)	-	(4,874)	(12,377)	(991)
RWAs at end of day previous quarter end	1,554	4,249	4,046	1	12,893	22,743	1,819
Movement in risk levels	461	(1,774)	(649)	(1)	154	(1,809)	(145)
Model updates/changes	-	-	670	-	-	670	54
Methodology and policy	-	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-
Foreign exchange movements	-	-	-	-	-	-	-
Other[3]	4	(8)	-	-	-	(4)	-
RWAs at end of day current quarter end	2,019	2,467	4,067	-	13,047	21,600	1,728
Regulatory adjustment[2]	1,613	4,785	-	-	4,874	11,272	902
RWAs at end of reporting period	**3,632**	**7,252**	**4,067**	**0**	**17,921**	**32,872**	**2,630**
MSIP							
RWAs at previous quarter end[1]	**3,750**	**8,576**	**5,009**	**1**	**17,742**	**35,078**	**2,806**
Regulatory adjustment[2]	(2,197)	(4,330)	(963)	-	(4,864)	(12,354)	(988)
RWAs at end of day previous quarter end	1,553	4,246	4,046	1	12,878	22,724	1,818
Movement in risk levels	457	(1,795)	(649)	(1)	36	(1,952)	(157)
Model updates/changes	-	-	670	-	-	670	54
Methodology and policy	-	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-
Foreign exchange movements	-	-	-	-	-	-	-
Other[3]	4	(8)	-	-	-	(4)	-
RWAs at end of day current quarter end	2,014	2,443	4,067	-	12,914	21,438	1,715
Regulatory adjustment[2]	1,612	4,781	-	-	4,858	11,251	900
RWAs at end of reporting period	**3,626**	**7,224**	**4,067**	**0**	**17,772**	**32,689**	**2,615**

1. Previous reporting period was Q2'19.
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 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 primary driver for both end of day and reported Market Risk RWA movements has been reduction in risk levels for Stressed VaR ("SVaR"), as a result of lower equity risk, combined with increased interest rate and inflation risks.

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%.

Table 7: Liquidity coverage ratio

MSI Group	Q3’19	Q2’19
Number of data points used in the calculation of averages	12	12
	Total weighted adjusted value (12 month average)	
	$MM	$MM
Liquidity buffer	48,298	46,846
Total net cash outflows	21,147	20,173
Liquidity Coverage Ratio	228%	232%

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

Amendments to the Capital Requirements Regulation

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), the Bank Recovery and Resolution Directive (“BRRD”) and the Single Resolution Mechanism (“SRM”).

The CRD V / CRR II package includes: Total Loss-Absorbing Capacity (“TLAC”), Fundamental Review of the Trading Book (“FRTB”), standardised approach for the calculation of counterparty credit exposures for derivatives (“SA-CCR”), Net Stable Funding Ratio (“NSFR”), revised Leverage Ratio, revised Large Exposures 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 the majority of new requirements applying from 28 June 2021.

UK withdrawal from the EU

On 23 June 2016, the UK electorate voted to leave the European Union (the “EU”). On 29 March 2017, the UK invoked Article 50 of the Lisbon Treaty which triggered a two-year period, subject to extension (which would need the unanimous approval of the EU Member States), during which the UK government negotiated a form of withdrawal agreement with the EU.

On 22 March 2019, the UK and the other EU Member States agreed to an extension of the two-year period to 22 May, 2019, (if the UK Parliament approved the withdrawal agreement by 29 March 2019) or 12 April 2019 (if it did not). On 11 April 2019, the UK and the other EU Member States agreed to a further extension to 31 October 2019 and on 28 October 2019 this was agreed to be extended again to 31 January 2020.

The MSI Group is continuing to prepare its European operations to be able to serve clients regardless of whether or not a withdrawal or transition agreement is reached. Changes have been made to European operations in an effort to ensure that the MSI Group can continue to provide banking and investment and other services in EU member states from within the EU where necessary.

These changes include use of a new licenced investment firm, Morgan Stanley Europe S.E (“MSESE”), based in Germany, which is passported throughout the EU and will serve EU-based clients where required; and the existing German licensed bank Morgan Stanley Bank AG (“MSBAG”), which will provide licensable banking activities where required. In addition, a new holding company for this structure has been incorporated, Morgan Stanley Europe Holding SE (“MSEHSE”). The MSI Group will also serve EU clients out of branches of these entities in the EU and existing regulated entities in France and Spain as necessary.

These entities are now operational and the MSI Group is continuing to build out their capabilities, including onboarding clients and further engagement with clients and local regulators. The MSI Group also expects to continue to add personnel to offices in the EU as required to support the evolving business model, including, from its London operations and its EU branches.

As a result of the political uncertainty described above, the proposed post-Brexit structure of European operations for the Morgan Stanley Group may need to continue to adapt and change. Given the potential negative disruption to regional and global financial markets, and depending on the extent to which Morgan Stanley may be required to make material changes to European operations beyond those currently planned or executed, results of Morgan Stanley’s operations and business prospects could be negatively affected. However, following the reorganisations and changes effected to date, the MSI Group’s principal activity and risks remain unchanged and while some business and client activity has or will be transferred from the Group to other Morgan Stanley Group entities that operate within the EU, the impact of its profitability and balance sheet is not expected to be material in the short to medium term.

9. Appendix I: Abbreviations

Term	Definition
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	Europe, the Middle East and Africa
EMEA ALCO	EMEA Asset and Liability Committee
EU	European Union
FCA	Financial Conduct Authority
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
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
MSBAG	Morgan Stanley Bank AG
MSBIL	Morgan Stanley Bank International Limited
MSEHSE	Morgan Stanley Europe Holding SE
MSESE	Morgan Stanley Europe S.E
MSI	Morgan Stanley International Limited
MSI Group	Morgan Stanley International Limited (and its subsidiaries)
MSIM	Morgan Stanley Investment Management Limited
MSIM ACD	Morgan Stanley Investment Management (ACD) Limited
MSIM Group	Morgan Stanley Investment Management Sub-Consolidated Group
MSIP	Morgan Stanley & Co. International plc
MSIP Group	Morgan Stanley & Co. International plc (and its subsidiaries)
MTMM	Mark-to-Market Method
NSR	Net Stable Funding Ratio
OTC	Over-the-counter
PRA	Prudential Regulation Authority
RTS	Regulatory Technical Standards
RWAs	Risk Weighted Assets
SA	Standardised Approach
SFTs	Securities Financing Transactions
SREP	Supervisory Review and Evaluation Process
SRM	Single Resolution Mechanism
SVaR	Stressed Value at Risk
TCR	Total Capital Requirement
TLAC	Total Loss-Absorbing Capacity
UK	United Kingdom
US	United States
VaR	Value at Risk