

# **Morgan Stanley International Limited Group**

**Pillar 3 Quarterly Disclosure Report**

**As at 31 March 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 first quarter of 2020.

As at 31 March 2020, 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**

<b>MSI Group<sup>1</sup></b>					
	<b>Q1'20</b>	<b>Q4'19</b>	<b>Q3'19</b>	<b>Q2'19</b>	<b>Q1'19</b>
Common Equity Tier 1 Capital <sup>2</sup>	19,069	19,734	18,815	19,072	18,898
Additional Tier 1 Capital	3,500	3,500	3,500	3,500	3,500
<b>Tier 1 Capital</b>	<b>22,569</b>	<b>23,234</b>	<b>22,315</b>	<b>22,572</b>	<b>22,398</b>
<b>Tier 2 Capital</b>	<b>5,362</b>	<b>5,383</b>	<b>5,358</b>	<b>5,369</b>	<b>5,376</b>
<b>Total Own Funds</b>	<b>27,931</b>	<b>28,617</b>	<b>27,673</b>	<b>27,941</b>	<b>27,774</b>
Risk Weighted Assets	152,140	137,333	137,019	132,222	130,495
Common Equity Tier 1 Ratio	12.5%	14.4%	13.7%	14.4%	14.5%
Tier 1 Capital Ratio	14.8%	16.9%	16.3%	17.1%	17.2%
Total Capital Ratio	18.4%	20.8%	20.2%	21.1%	21.3%
Leverage Exposure	458,603	455,153	468,322	455,281	440,401
Leverage Ratio <sup>3</sup>	4.9%	5.1%	4.8%	5.0%	5.1%
Liquidity buffer	48,508	48,541	48,298	46,846	45,280
Total net cash outflows	21,121	21,267	21,291	20,341	20,110
<b>Liquidity Coverage Ratio<sup>4</sup></b>	<b>230%</b>	<b>228%</b>	<b>227%</b>	<b>230%</b>	<b>225%</b>
<b>MSIP<sup>1</sup></b>					
	<b>Q1'20</b>	<b>Q4'19</b>	<b>Q3'19</b>	<b>Q2'19</b>	<b>Q1'19</b>
Common Equity Tier 1 Capital <sup>2</sup>	14,895	15,394	15,043	15,113	15,112
Additional Tier 1 Capital	3,500	3,500	3,500	3,500	3,500
<b>Tier 1 Capital</b>	<b>18,395</b>	<b>18,894</b>	<b>18,543</b>	<b>18,613</b>	<b>18,612</b>
<b>Tier 2 Capital</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>
<b>Total Own Funds</b>	<b>23,395</b>	<b>23,894</b>	<b>23,543</b>	<b>23,613</b>	<b>23,612</b>
Risk Weighted Assets	134,852	127,347	129,381	126,670	120,789
Common Equity Tier 1 Ratio	11.0%	12.1%	11.6%	11.9%	12.5%
Tier 1 Capital Ratio	13.6%	14.8%	14.3%	14.7%	15.4%
Total Capital Ratio	17.3%	18.8%	18.2%	18.6%	19.5%
Leverage Exposure	443,185	445,417	455,937	445,514	428,313
Leverage Ratio <sup>3</sup>	4.2%	4.2%	4.1%	4.2%	4.3%

1. The MSI Group and MSIP are required to maintain a minimum ratio of Own Funds to Risk Weighted Assets (“RWAs”). As at 31 March 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 31 March 2020 are \$2,296MM and as at 31 December 2019 were \$1,314MM. MSIP’s adjustments to CET1 due to prudential filters as at 31 March 2020 are \$2,220MM and as at 31 December 2019 were \$1,264MM.

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 31 March 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. 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 31 March 2020 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 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. As of 31 March 2020, the CCyB for the MSI Group stood at 0.1%. On 11 March 2020 however, 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.

## 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**

<b>\$MM</b>				
<b>MSI Group</b>	<b>Q1'20</b>	<b>Q4'19</b>	<b>Q3'19</b>	<b>Q2'19</b>
<b>Total loss absorbing capacity (TLAC) available</b>	<b>33,931</b>	<b>34,617</b>	<b>30,173</b>	<b>30,441</b>
<b>Total RWA at the level of the resolution group</b>	<b>152,140</b>	<b>137,333</b>	<b>137,019</b>	<b>132,222</b>
TLAC as a percentage of RWA (row 1/row2) (%) <sup>1</sup>	22.3%	25.2%	22.0%	23.0%
Leverage ratio exposure measure at the level of the resolution group	458,603	455,153	468,322	455,281
TLAC at a percentage of leverage ratio exposures measure (row1/row4) (%) <sup>1</sup>	7.4%	7.6%	6.4%	6.7%

1. As at 31 March 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 31st March 2020 exceed the minimum requirement of 3% that will apply once European legislation comes into effect on 28 June 2021. 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 MSIP leverage ratio have decreased (0.2)% and (0.1)% respectively from 30 December 2019 to 31 March 2020, primarily due to decrease in Tier1 Capital.

## 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 tranching, 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.



<b>Table 3: Overview of RWAs (EU OV1)</b>			
<b>\$MM</b>	<b>RWAs</b>	<b>RWAs</b>	<b>MCR</b>
<b>MSI Group</b>	<b>Q1'20</b>	<b>Q4'19</b>	<b>Q1'20</b>
<b>Credit risk (excluding CCR)</b>	<b>14,209</b>	<b>13,036</b>	<b>1,137</b>
Of which standardised approach	4,062	4,523	325
Of which foundation IRB (FIRB) approach	5,725	5,887	458
Of which advanced IRB (AIRB) approach	-	-	-
Of which equity IRB under the simple risk-weighted approach or the IMA	4,422	2,626	354
<b>CCR</b>	<b>56,714</b>	<b>52,788</b>	<b>4,537</b>
Of which mark-to-market	9,494	9,029	760
Of which original exposure	-	-	-
Of which standardised approach	1,102	362	88
Of which internal model method	24,506	21,713	1,960
Of which Financial collateral comprehensive method (for SFTs)	7,151	7,968	572
Of which risk exposure amount for contributions to the default fund of a CCP	1,027	877	82
Of which CVA	13,434	12,839	1,075
<b>Settlement risk</b>	<b>300</b>	<b>108</b>	<b>24</b>
<b>Securitisation exposures in banking book (after cap)<sup>1</sup></b>	<b>225</b>	<b>164</b>	<b>18</b>
Of which IRB	-	104	-
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	-	60	-
<b>Market risk</b>	<b>60,579</b>	<b>49,583</b>	<b>4,846</b>
Of which standardised approach	12,411	14,073	993
Of which IMA	48,168	35,510	3,853
<b>Large exposures</b>	<b>7,903</b>	<b>9,129</b>	<b>632</b>
<b>Operational risk</b>	<b>12,094</b>	<b>12,094</b>	<b>968</b>
Of which basic indicator approach	12,094	12,094	968
Of which standardised approach	-	-	-
Of which advanced measurement approach	-	-	-
<b>Amounts below the thresholds for deduction (subject to 250% risk weight)</b>	<b>116</b>	<b>431</b>	<b>9</b>
<b>Floor adjustment</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>152,140</b>	<b>137,333</b>	<b>12,171</b>
<b>MSIP</b>			
<b>Credit risk (excluding CCR)</b>	<b>11,252</b>	<b>10,058</b>	<b>900</b>
Of which standardised approach	2,494	2,898	199
Of which foundation IRB (FIRB) approach	4,411	4,667	353
Of which advanced IRB (AIRB) approach	-	-	-
Of which equity IRB under the simple risk-weighted approach or the IMA	4,347	2,493	348
<b>CCR</b>	<b>54,209</b>	<b>51,470</b>	<b>4,337</b>
Of which mark-to-market	9,117	8,690	729
Of which original exposure	-	-	-
Of which standardised approach	1,072	337	86
Of which internal model method	23,612	21,138	1,889
Of which Financial collateral comprehensive method (for SFTs)	6,951	8,419	556
Of which risk exposure amount for contributions to the default fund of a CCP	662	576	53
Of which CVA	12,795	12,310	1,024
<b>Settlement risk</b>	<b>278</b>	<b>90</b>	<b>22</b>
<b>Securitisation exposures in banking book (after cap)<sup>1</sup></b>	<b>225</b>	<b>164</b>	<b>18</b>
Of which IRB	-	104	-
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	-	60	-
<b>Market risk</b>	<b>52,297</b>	<b>42,535</b>	<b>4,184</b>
Of which standardised approach	6,625	8,081	530
Of which IMA	45,672	34,454	3,654
<b>Large exposures</b>	<b>7,504</b>	<b>13,776</b>	<b>600</b>
<b>Operational risk</b>	<b>8,823</b>	<b>8,823</b>	<b>706</b>
Of which basic indicator approach	8,823	8,823	706
Of which standardised approach	-	-	-
Of which advanced measurement approach	-	-	-
<b>Amounts below the thresholds for deduction (subject to 250% risk weight)</b>	<b>264</b>	<b>431</b>	<b>21</b>
<b>Floor adjustment</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>134,852</b>	<b>127,347</b>	<b>10,788</b>

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

Over the first quarter RWAs increased, primarily driven by Market Risk due to increases in VaR based measures, as well as counterparty credit risk predominantly due to IMM; partially offset by large exposures.

## 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.

<b>\$MM</b>	<b>MSI Group</b>		<b>MSIP</b>	
	<b>RWAs</b>	<b>MCR</b>	<b>RWAs</b>	<b>MCR</b>
<b>RWAs at the end of the previous reporting period<sup>1</sup></b>	<b>5,887</b>	<b>471</b>	<b>4,667</b>	<b>374</b>
Asset size	(123)	(10)	(262)	(21)
Asset quality	(39)	(3)	6	0
Model updates	-	-	-	-
Methodology and policy	-	-	-	-
Acquisitions and disposals	-	-	-	-
Foreign exchange movements	-	-	-	-
Other	-	-	-	-
<b>RWAs at the end of the reporting period</b>	<b>5,725</b>	<b>458</b>	<b>4,411</b>	<b>353</b>

1. Previous reporting period was Q4'19.

Over the first quarter, MSI Group and MSIP asset size changed primarily due to a decrease in cash exposure.

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

<b>\$MM</b>	<b>MSI Group</b>		<b>MSIP</b>	
	<b>RWAs</b>	<b>MCR</b>	<b>RWAs</b>	<b>MCR</b>
<b>RWAs at the end of the previous reporting period<sup>1</sup></b>	<b>21,713</b>	<b>1,737</b>	<b>21,138</b>	<b>1,691</b>
Asset size	3,981	318	3,600	288
Credit quality of counterparties	(1,188)	(95)	(1,126)	(90)
Model updates (IMM only)	-	-	-	-
Methodology and policy (IMM only)	-	-	-	-
Acquisitions and disposals	-	-	-	-
Foreign exchange movements	-	-	-	-
Other	-	-	-	-
<b>RWAs at the end of the reporting period</b>	<b>24,506</b>	<b>1,960</b>	<b>23,612</b>	<b>1,889</b>

1. Previous reporting period was Q4'19.

Over the first quarter, the increase from Asset Size was mainly driven by portfolio and market movements. The decrease from credit quality of counterparties was largely due to the effective maturity profile changes which contributed to the overall risk weights decrease.

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

<b>Table 6: RWA flow statements of market risk exposures under the IMA (EU MR2-B)</b>							
<b>\$MM</b>	<b>VAR</b>	<b>Stressed VAR</b>	<b>IRC</b>	<b>Comprehensive risk measure</b>	<b>Other<sup>4</sup></b>	<b>RWAs</b>	<b>MCR</b>
<b>MSI Group</b>							
<b>RWAs at previous quarter end<sup>1</sup></b>	<b>4,370</b>	<b>9,765</b>	<b>5,546</b>	<b>10</b>	<b>15,819</b>	<b>35,510</b>	<b>2,841</b>
Regulatory adjustment <sup>2</sup>	(3,249)	(6,430)	-	-	(4,973)	(14,652)	(1,173)
RWAs at end of day previous quarter end	1,121	3,335	5,546	10	10,846	20,858	1,668
Movement in risk levels	1,361	2,053	809	28	4,069	8,320	666
Model updates/changes	-	-	-	-	793	793	64
Methodology and policy	-	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-
Foreign exchange movements	-	-	-	-	-	-	-
Other <sup>3</sup>	2,760	49	40	-	-	2,849	228
RWAs at end of day current quarter end	5,242	5,437	6,395	38	15,708	32,820	2,626
Regulatory adjustment <sup>2</sup>	929	6,918	-	-	7,501	15,348	1,227
<b>RWAs at end of reporting period</b>	<b>6,171</b>	<b>12,355</b>	<b>6,395</b>	<b>38</b>	<b>23,209</b>	<b>48,168</b>	<b>3,853</b>
<b>MSIP</b>							
<b>RWAs at previous quarter end<sup>1</sup></b>	<b>4,313</b>	<b>9,579</b>	<b>5,541</b>	<b>10</b>	<b>15,011</b>	<b>34,454</b>	<b>2,756</b>
Regulatory adjustment <sup>2</sup>	(3,215)	(6,310)	-	-	(4,546)	(14,071)	(1,126)
RWAs at end of day previous quarter end	1,098	3,269	5,541	10	10,465	20,383	1,630
Movement in risk levels	1,183	1,747	624	28	3,918	7,500	600
Model updates/changes	-	-	-	-	793	793	63
Methodology and policy	-	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-
Foreign exchange movements	-	-	-	-	-	-	-
Other <sup>3</sup>	2,760	49	41	-	-	2,850	228
RWAs at end of day current quarter end	5,041	5,065	6,206	38	15,176	31,526	2,521
Regulatory adjustment <sup>2</sup>	868	6,693	-	-	6,585	14,146	1,133
<b>RWAs at end of reporting period</b>	<b>5,909</b>	<b>11,758</b>	<b>6,206</b>	<b>38</b>	<b>21,761</b>	<b>45,672</b>	<b>3,654</b>

1. Previous reporting period was Q4'19.

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 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 first quarter, Market Risk RWA under IMA increased by \$12.7Bn compared to Q4 2019, primarily driven by increase in risk levels across equities, credit and interest rates. The movement in other (risk measure) was attributable to increases in Risks not in VaR ("RNIVs") as a result of new RNIV, and higher exposures to existing RNIVs, for the equities business. Increase in Other (flow driver) comprised the periodic time series and parameter updates. There has been a higher impact for VaR, mainly reflecting the recent heightened market volatility updated in the time series.

## 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 fallback 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 although BCBS recently postponed the expected go-live date to 2023.

### 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.

**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.

**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. These industry-wide measures differ by jurisdictions and continue to evolve. They include amendments to capital and liquidity requirements to address the impact of higher volatility, for example through adjusting for the impact of increased backtesting exceptions on the VaR multiplier, and a reduction in countercyclical buffer requirements. Other guidance has also been provided, for example on the use of capital and liquidity buffers.

*Further details of the COVID-19 narrative can be viewed in the MSI Group annual 2019 Pillar 3 disclosure, located at <https://www.morganstanley.com/about-us-ir/pillar-uk.html>.*

**UK withdrawal from the EU**

*Details of the UK withdrawal from the EU narrative can be viewed in the MSI Group annual 2019 Pillar 3 disclosure, located at <https://www.morganstanley.com/about-us-ir/pillar-uk.html>.*

## 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
MSBIL	Morgan Stanley Bank International Limited
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
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