

Morgan Stanley Europe Holding SE Group

Pillar 3 Regulatory Disclosure Report

As of 30 September 2023

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¹ Please note that the English version of the Pillar 3 Disclosure report as of 30 September 2023 is a translation; the German version prevails

1. Overview

The principal activity of Morgan Stanley Europe Holding SE, Frankfurt am Main, Germany ("MSEHSE") together with its subsidiaries (the "MSEHSE Group") is the provision of financial services to clients based mainly in the European Economic Area ("EEA") consisting of corporations, governments, and financial institutions. There have not been any significant changes in the MSEHSE Group's principal activities during the third quarter of 2023.

From 31 December 2022 onwards the MSEHSE Group complies with its European Union ("EU") related Pillar 3 disclosure requirements through a standalone disclosure report. Disclosures prior to 31 December 2022 were included within the Morgan Stanley International Limited Group (the "MSI Group"), London, United Kingdom ("UK") Pillar 3 disclosure report.

As of 30 September 2023 Pillar 3 disclosures are prepared at the consolidated level of the MSEHSE Group. In addition, Morgan Stanley Europe SE, Frankfurt am Main, Germany ("MSESE") is classified as a large non-listed subsidiary of the MSEHSE Group. Any large subsidiary disclosures for MSESE would be presented on an individual consolidation basis (MSESE as parent institution incorporating its subsidiary Morgan Stanley Bank AG, Frankfurt am Main, Germany ("MSBAG"), "MSESE Consol"). No quantitative information is presented for MSESE Consol in this report given the reduced reporting requirements for the quarterly disclosure based on Article 13 (1) of the Capital Requirements Regulation ("CRR").

On 18 November 2022, the Federal Financial Supervisory Authority ("BaFin") in consultation with the Deutsche Bundesbank categorised MSEHSE as an Other Systemically Important Institution ("O-SII"). As of 1 January 2023, the MSEHSE Group is required to hold an additional 0.25% Common Equity Tier 1 ("CET1") capital as an O-SII buffer.

Director's Responsibility Statement

To the best of my knowledge, I certify that the MSEHSE Group's Pillar 3 Disclosure Report as of 30 September 2023 is compliant with Part 8 of the CRR and has been prepared in accordance with formal governance and internal processes, systems and control procedures adopted at the management body level.

Dr. Jana Währisch

Chief Financial Officer

Morgan Stanley Europe Holding SE

Basis of Consolidation

The MSEHSE Group completes its prudential consolidation in compliance with CRR Part 1, Title II Chapter 2, with all entities fully consolidated. The prudential consolidation scope is the same as the consolidation scope for accounting purposes.

Morgan Stanley Group

The MSEHSE Group is a wholly owned sub-group of the MSI Group. The MSI Group is regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") in the UK. The MSEHSE Group's, and MSI Group's, ultimate parent undertaking and controlling entity is Morgan Stanley, a Delaware corporation, United States of America ("USA"), 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 ("FED"). Details on the latest MSI Group Pillar 3 disclosure can be accessed at: <https://www.morganstanley.com/about-us-ir/pillar-uk>.

The information disclosed in this report is not 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, creditors, or other stakeholders seeking information on capital adequacy, liquidity, risk exposure and risk management policies of the Morgan Stanley Group should consult the public disclosures of the Morgan Stanley Group.

Details of the latest Morgan Stanley Group Pillar 3 disclosure can be accessed at <http://www.morganstanley.com/about-us-ir/pillar-us>. Details of the latest Morgan Stanley Group Liquidity Coverage Ratio ("LCR") disclosure can be accessed at <https://www.morganstanley.com/about-us-ir/lcr-disclosures-us>.

Morgan Stanley is listed on the New York Stock Exchange and is required, by the US Securities and Exchange Commission ("SEC"), to file public disclosures, including Annual 10-K Report and Quarterly 10-Q Report. These can be accessed at <https://www.morganstanley.com/about-us-ir/sec-filings>.

MSEHSE Group

MSEHSE is the EU parent company and is authorised by the European Central Bank ("ECB") as a financial holding company. MSEHSE directly holds 100% of the shares in MSESE which in turn directly holds 100% of the shares in MSBAG.

MSESE has permission to use the individual consolidation method under Article 9 of the CRR. Under this permission, capital requirements are managed at both the consolidated MSEHSE Group level and at the MSESE Consol level. MSESE Consol is disclosed as a large subsidiary. For reporting periods prior to 1 January 2023 MSESE was exempted from large subsidiary Pillar 3 disclosures because it had been granted a capital waiver in accordance with Article 7 of the CRR and section 2a (2) *Kreditwesengesetz* ("KWG"). MSBAG is classified as a non-large subsidiary in accordance with Article 4 (1) No. 146 CRR and is exempted from the requirement to publish Pillar 3 disclosures. MSBAG has been granted a capital waiver in accordance with Article 7 of the CRR and section 2a (3) KWG, that waives the requirement on an individual basis.

Additionally, MSEHSE is the sole shareholder of Morgan Stanley France Holdings I S.A.S, Paris, France ("MSFH I") together with its subsidiaries Morgan Stanley France Holdings II S.A.S, Paris, France ("MSFH II") and Morgan Stanley France S.A., Paris, France ("MSF"). MSF and MSFH I are subject to supervision by the Autorité de Contrôle Prudentiel et de Résolution ("ACPR"), Paris. As a Class 2 non-systemic investment firm, MSF falls under the scope of the Investment Firms Regulation ("IFR"). MSFH I on a consolidated basis, and MSF on a solo basis, prepare their own Pillar 3 disclosure report in accordance with the IFR rules. The latest report can be accessed at: <https://www.morganstanley.com/about-us/global-offices/europe-middle-east-africa/france>.

The MSEHSE Group is subject to joint supervision by the ECB, the BaFin and the Deutsche Bundesbank.

Additional Regulatory Supervision

MSESE as a Germany-based broker-dealer is registered with the SEC as a security-based swap dealer and registered with the Commodity Futures Trading Commission (“CFTC”) as a swap dealer. Until 31 December 2022, and pursuant to an interim no-action relief order, MSESE was complying with the CRR and German local capital requirements instead of SEC and CFTC capital requirements. Since 1 January 2023 compliance with SEC requirements is met based on the application of substituted compliance. An interim no-action relief letter remains in place for CFTC requirements while they finalise their rule allowing substituted compliance.

Business Developments

In alignment with its business strategy and regulatory expectations, the MSEHSE Group is expanding its business activities by implementing booking model changes which will result in risk management of additional EU products within the MSEHSE Group.

War and increased tensions in the Middle East

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

2. Regulatory Frameworks

The Basel Committee on Banking Supervision (“BCBS”) sets the Standards 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 central 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 several times, most recently through a series of reforms known collectively as Basel III. The Basel Accords are implemented in the EU via the Capital Requirements Directive (“CRD”) and CRR, both as amended. Further detailed requirements are provided through technical standards and regulations issued by other EU bodies, for example the European Banking Authority (“EBA”), as well as the ECB and other national supervisors which includes the BaFin and the Deutsche Bundesbank.

The framework consists of three “Pillars”:

- Pillar 1 – Minimum capital and liquidity requirements: defines rules for the calculation of credit, market, operational and liquidity risk;
- Pillar 2 – Supervisory review process: including a requirement for institutions 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 institutions.

Pillar 3 Disclosure

This report represents the quarterly public Pillar 3 qualitative and quantitative disclosures in relation to the MSEHSE Group and MSESE Consol, as of 30 September 2023. The disclosure report is published and can be found at <https://www.morganstanley.com/about-us-ir/pillar-eu.html>.

The MSEHSE Group's Pillar 3 disclosures are prepared in accordance with the requirements of Part 8 of the CRR. Additional disclosure requirements are implemented by the EBA via Regulatory Technical Standards (“RTS”) and Implementing Technical Standards (“ITS”). These additional disclosure requirements include published templates which have been integrated within this disclosure where applicable.

3. Total Loss-Absorbing Capacity

The MSEHSE Group is subject to internal Total Loss Absorbing Capacity (“iTLC”) requirements under the CRR. MSESE Consol is not subject to TLAC requirements.

These requirements are designed to enhance the resilience of the financial system by ensuring institutions have sufficient capital and eligible liabilities to absorb losses and recapitalize in resolution.

As of 30 September 2023, the minimum capacity requirements for the MSEHSE Group, as a material subsidiary of a non-EU Global Systemically Important Institution (“G-SII”), are 18% of Risk Weighted Assets (“RWA”) and 6.75% of leverage ratio exposure measure, scaled at 90% and met on a consolidated basis.

The MSEHSE Group is subject to internal Minimum Required Eligible Liabilities (“MREL”) requirements. MSESE Consol will be subject to MREL requirements from 1 January 2024.

Morgan Stanley Group’s preferred resolution strategy is a Single Point of Entry (“SPOE”) strategy. Further information on the resolution strategy can be found in the Morgan Stanley Annual 10-K Report and Quarterly 10-Q Report as well as the Public Section of Morgan Stanley’s Title I resolution plan¹.

Table 1 provides details of the composition of the MSEHSE Group’s TLAC.

Table 1: TLAC composition (EU iTLC) – MSEHSE Group

€MM	b	c
MSEHSE Group ¹	Non-EU G-SII requirement for own funds and eligible liabilities (internal TLAC)	Qualitative information
Applicable requirement and level of application		
EU-1 Is the entity subject to a Non-EU G-SII Requirement for own funds and eligible liabilities? (Y/N)		Y
EU-2 If EU 1 is answered by 'Yes', is the requirement applicable on a consolidated or individual basis? (C/I)		C
EU-2a Is the entity subject to an internal MREL requirement? (Y/N)		Y
EU-2b If EU 2a is answered by 'Yes', is the requirement applicable on a consolidated or individual basis? (C/I)		C
Own funds and eligible liabilities		
EU-3 Common Equity Tier 1 capital (CET1)	6,199	
EU-4 Eligible Additional Tier 1 instruments	400	
EU-5 Eligible Tier 2 instruments	-	
EU-6 Eligible own funds	6,599	
EU-7 Eligible liabilities	2,500	
EU-8 Of which permitted guarantees		
EU-9a (Adjustments)		
EU-9b Own funds and eligible liabilities items after adjustments	9,099	
Total risk exposure amount and total exposure measure		
EU-10 Total risk exposure amount	29,292	
EU-11 Total exposure measure	82,742	
Ratio of own funds and eligible liabilities		
EU-12 Own funds and eligible liabilities (as a percentage of TREA)	31.06%	
EU-13 of which permitted guarantees		
EU-14 Own funds and eligible liabilities (as a percentage of leverage exposure)	11.00%	
EU-15 of which permitted guarantees		
EU-16 CET1 (as a percentage of TREA) available after meeting the entity’s requirements	12.54%	
EU-17 Institution-specific combined buffer requirement	3.56%	
Requirements		
EU-18 Requirement expressed as a percentage of the total risk exposure amount	16.20%	
EU-19 of which may be met with guarantees		
EU-20 Internal MREL expressed as percentage of the total exposure measure	6.08%	
EU-21 of which may be met with guarantees		
Memorandum items		
EU-22 Total amount of excluded liabilities referred to in Article 72a(2) CRR	128,248	

1. As of 30 September 2023, the MSEHSE Group complies with the iTLC requirements.

Over the third quarter, eligible liabilities remained unchanged.

¹ <https://www.fdic.gov/resources/resolutions/resolution-authority/resplans/>

4. Regulatory Development

Finalising Basel III Reforms

A number of remaining standards of the Basel III reform package have still to be fully implemented. These standards, referred to by the BCBS and international regulators as the 'Finalisation of Basel III', provide updates to key components of the regulation framework. These include revised market RWA requirements through the Fundamental Review of Trading Book ("FRTB"), new Credit Valuation Adjustments ("CVA"), 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 RWA generated by internal models, which will be set at 72.5% of total standardised RWA. The output floor will be phased-in over five years. Banks will also need to disclose their RWA based upon the standardised approaches.

The European Commission published draft rules in October 2021, referred to as CRR III and CRD VI, to implement these final elements of the Basel III reform package. The draft rules are largely consistent with the Basel III reform package with some adjustments to address EU specifics. The proposed rules are currently going through the European legislative process and are subject to amendments proposed by the European Parliament and the Council of the EU. The proposal also includes an increased focus on Environmental, Social and Governance ("ESG") risks.

5. Appendix I: Abbreviations

Term	Definition
ACPR	Autorité de Contrôle Prudentiel et de Résolution
BaFin	Federal Financial Supervisory Authority
Basel Accords	Standards for international banking prudential regulation in a series of accords
BCBS	Basel Committee on Banking Supervision
CET1	Common Equity Tier 1
CFTC	Commodity Futures Trading Commission
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustments
EBA	European Banking Authority
ECB	European Central Bank
EEA	European Economic Area
ESG	Environmental, Social and Governance
EU	European Union
FCA	Financial Conduct Authority
FED	Federal Reserve System
FRTB	Fundamental Review of Trading Book
G-SII	Global Systemically Important Institution
ICAAP	Internal Capital Adequacy Assessment
IFR	Investment Firms Regulation
ILAAP	Internal Liquidity Adequacy Assessment
iTLAC	internal Total Loss Absorbing Capacity
ITS	Implementing Technical Standards
LCR	Liquidity Coverage Ratio
KWG	Kreditwesengesetz
MREL	Minimum Required Eligible Liabilities
MSBAG	Morgan Stanley Bank AG
MSEHSE	Morgan Stanley Europe Holding SE
MSEHSE Group	MSEHSE and its subsidiaries
MSESE	Morgan Stanley Europe SE
MSESE Consol	MSESE as parent institution incorporating its subsidiary Morgan Stanley Bank AG
MSF	Morgan Stanley France S.A.
MSFH I	Morgan Stanley France Holdings I S.A.S
MSFH II	Morgan Stanley France Holdings II S.A.S
MSI Group	Morgan Stanley International Limited Group (MSI and its subsidiaries)
O-SII	Other Systemically Important Institution
PRA	Prudential Regulation Authority
RTS	Regulatory Technical Standards
RWA	Risk Weighted Assets
SEC	Securities and Exchange Commission
SPOE	Single Point of Entry
TREA	Total risk exposure amount
UK	United Kingdom
USA	United States of America