

WRITTEN NOTICE

IMA PERMISSION

To: Morgan Stanley & Co International Plc ("MSIP")
(FRN 165935)
Morgan Stanley Bank International Limited ("MSBIL")
(FRN 195430)
(each "a firm")
Morgan Stanley International Limited ("MSI" and "the holding company") (FRN 218356)
(together "the addressees")

Of: 25 Cabot Square, London E14 4QA

Ref: MSIP – 00005683 MSBIL – 00005684

Date: 1 December 2022

DECISIONS

1. In accordance with the discretions afforded to the PRA by Sections 1-5 Chapter 5, Title IV of Part 3 of Regulation 575/2013 of the European Parliament and of the Council of 26th June 2013 on prudential requirements for credit institutions and investment firms (the "CRR"), the PRA has decided to grant MSIP on an individual basis, MSIP on the basis of its sub-consolidated situation pursuant to Article 22 CRR, MSBIL on the consolidated situation of MSI in relation to the exposures incurred by MSIP, Morgan Stanley Europe SE ("MSESE") and Morgan Stanley Bank AG ("MSBAG"), and MSI, permission to use the internal model approach in calculation of own funds requirements for market risk on the terms and conditions set out in Annex 1 (the "IMA Permission").
2. Further to regulations 34B and 35B of the Capital Requirements Regulations 2013 and an application made by the firm in accordance with section 55M(5) of the Financial Services and Markets Act 2000 (the "Act") for certain requirements, the PRA has decided to grant to the firm the requirements specified in Annex 2. The PRA expects the holding company to submit the information requested in Annex 3.



3. If an addressee ceases to comply with the conditions in Chapter 5, Title IV, Part 3 of the CRR, the terms of the IMA permission set out in Annex 1, or the requirements set out in Annex 2, the PRA will re-consider the terms and conditions of the IMA Permission and the requirements relevant to it, which may include a revocation of the IMA Permission in whole or in part.
4. The IMA Permission takes effect on 1 December 2022. This written notice replaces all previous written notices of this IMA Permission.

PROCEDURAL MATTERS

5. Details of the IMA Permission and the attendant requirements imposed under section 55M will be published on the PRA Register. The full text of this Decision Notice will not be published.

Talib Idris - Head of Division, Major Overseas Banks, Authorisations, RegTech & International Supervision

ANNEX 1

THE INTERNAL MODEL APPROACH PERMISSION

Legal Entities

1. The IMA Permission means that:
 - 1.1. MSIP may use on an individual basis;
 - 1.2. MSIP may use on the basis of its sub-consolidated situation pursuant to Article 22 CRR; and
 - 1.3. MSBIL may use on the consolidated situation of MSI, in relation to the exposures incurred by MSIP, MSESE and MSBAG;

the internal model approach in its calculation of own funds requirements for market risk in relation to the risk categories and categories of position described in paragraphs 3 and 4 of this Annex, in accordance with Section 1 and 2, Chapter 5, Title IV, Part 3 of the CRR.

2. The holding company may use the internal model approach in its calculation of own funds requirements for market risk in relation to the risk categories and categories of position described in paragraphs 3 and 4 of this Annex, in accordance with Section 1 and 2, Chapter 5, Title IV, Part 3 of the CRR, on a consolidated basis in respect of MSIP, MSESE and MSBAG.

Other Matters

3. The PRA has granted further permissions under
 - 3.1. Article 363(3) of the CRR; and
 - 3.2. Article 373 of the CRR.

Changes and extensions

4. In accordance with Article 363(3), first paragraph, of the CRR, material changes to the models subject to the IMA Permission, and the extension of use of those models (in particular to new legal entities, trading locations, risk categories, and categories of position) will require a separate permission from the PRA.
5. In accordance with Article 363(3), second paragraph, of the CRR, the PRA expects a firm to discuss with the PRA in advance of implementation details of any significant planned changes or extensions which are relevant to the internal models covered by this permission and which do not necessarily require the prior approval of the PRA under Article 363(1) of the CRR. Such changes might include, for example:

- 5.1. new models and systems;
- 5.2. changes to existing models and systems;
- 5.3. the inclusion of significant new types of positions;
- 5.4. the inclusion of significant new sets of positions, e.g. trading strategies, business units;
- 5.5. significant changes to existing types of position, e.g. currencies, geographies, sectors, maturities/tenors.

These details should include information about the nature of the change, including an estimate of the impact of the change on key risk measures (e.g. VaR) and on the addressees' own funds requirements for market risk. They should also include the impact on the own funds requirements for other risk types (such as CVA risk), where relevant.

For avoidance of doubt, this requirement to discuss such significant changes in advance is in addition to both:

- the requirements to apply for a separate permission for new legal entities, trading locations, risk categories, and categories of position (or changes to the specific inclusion or exclusion of certain types of positions or sets of positions within risk categories), as outlined under 13 above;
- ongoing reporting requirements, as outlined in this IMA permission and in Annex 2 below.

ANNEX 2

REQUIREMENTS RELEVANT TO THE IMA PERMISSION THAT THE FIRM HAS SOUGHT AND THE PRA IMPOSES UNDER SECTION 55M(5) OF THE ACT

The firm must comply with certain requirements relating to the use of its internal models under this IMA permission. This includes the submission of certain information to the PRA, in respect of each quarter, about developments and changes with respect to the internal models, as well as the systems and controls relating to them.

ANNEX 3

EXPECTATIONS RELEVANT TO THE IMA PERMISSION

1. The PRA expectation is that holding company will, no later than 20 business days after the end of each quarter, submit, in respect of that quarter, a report to the PRA with material information about developments and changes with respect to the internal models, as well as the systems and controls relating to them. The PRA expects that each report will outline at a minimum the following information in respect of that quarter:
 - 1.1. own funds requirements for market risk at the consolidated level and the solo level for each of the firms named in the permission as calculated by the internal models, or as calculated to supplement risks not captured in the internal models, sub-divided into appropriate categories (for instance, VaR, Stressed VaR, IRC, Correlation Trading, Risks Not in VaR) and preferably as a time series for all quarters since the initial granting of internal model permission. Own funds requirements for market risk at the solo level for each entity named in the permission in non-UK jurisdictions as reported to the relevant non-UK authority;
 - 1.2. a summary of backtesting performance against both hypothetical and actual profit and loss figures (which must be provided in electronic format), by legal entity and line of business;
 - 1.3. (if the model permission covers specific risk) the results of the specific risk backtesting, including specific risk backtesting exceptions;
 - 1.4. an up-to-date list of products covered by the model permission, showing all changes made since model permission was granted;
 - 1.5. any material changes or additions to any of the matters referred to in the firm's internal documentation in relation to the models (as it exists at the date of the model permission, or in the period since the most recent report, as appropriate);
 - 1.6. any relevant changes in senior management;
 - 1.7. the models not accurately capturing risks, and any steps taken to address this, as referred to in clause 2 of Supervisory Statement 13/13, including:
 - 1.7.1. details of any changes to the Risk Not in VaR policy or procedures;
 - 1.7.2. an updated assessment of the nature and materiality of risks not captured by VaR;
 - 1.7.3. details of additions, deletions and modifications to internally-derived capital buffers against those risks deemed to be material;
 - 1.8. a summary of any material internal audit findings relevant to the models covered by the permission;
 - 1.9. details of any VaR Model Validation work carried out in the previous quarter;

- 1.10. a graphed history of the ratio of Stressed VaR to VaR;
- 1.11. with respect to the stressed VaR, a summary of ongoing internal monitoring of stressed period selection with respect to current portfolio;
- 1.12. analysis on proxy usage, including review of the percentage of risk proxied and the percentage of risk netted through proxies;
- 1.13. the results of the stress tests on the holding company's correlation trading portfolio under Article 377(5) of the CRR, including a comparison to the current capital charge;
- 1.14. to the extent these are not covered by any of the items above, additional information that is required to facilitate discussion of the items on the agenda for scheduled periodic reviews of the holding company's permission (this agenda may be modified from time to time by the PRA);
- 1.15. changes to VaR limits; and
- 1.16. Any changes to the TP policies and procedures must be notified to the PRA in a timely fashion.

ANNEX 4

PROCEDURAL MATTERS

Decision-Maker

1. The decision which gave rise to the obligation to give this Notice was made by the Head of Division, Major Overseas Banks, Authorisations, RegTech & International Supervision.

Right to make representations

2. Each addressee has the right to make representations to the PRA in relation to the IMA Permission.

The Tribunal

3. Each addressee has the right to refer the decision to grant the IMA Permission to the Upper Tribunal (the "Tribunal"). The Tax and Chancery Chamber is the part of the Tribunal which, amongst other things, hears references arising from decisions of the PRA. Under paragraph 2(2) of Schedule 3 of the Tribunal Procedure (Upper Tribunal) Rules 2008, the firm has 28 days from the date on which this Written Notice is given to the firm to refer the matter to the Tribunal.

ANNEX 5

VERSION CONTROL

Version	Comment	Authorisation	Date
1.	IMA Permission issued	Supervision Risk and Policy Committee (SRPC)	01/10/2014
	IMA Permission amended to approve change from CAD2 to IMA(ACTS 6833)	Andy Murfin, Investment Banks	13/09/2014
2.	IMA Permission amended to remove Morgan Stanley Securities Limited & adding reference to non-EEA subgroup	Laura Winchester, Head of Department, Investment Banks	28/09/2015
3.	IMA Permission amended to change the pricing model for vanilla interest rate instruments from PowerFSV (HJM) to SABRM (ACTS 12625)	Laura Winchester, Head of Department, Investment Banks	02/12/2015
4.	IMA Permission amended to approve model change for FX Basket products (ACTS 12350)	Laura Winchester, Head of Department, Investment Banks	18/02/2016
5.	IMA Permission amended to include introduction of IRC methodology amendments for the issuer level rating and industry sector/region assignments (ACTS 15175)	Laura Winchester, Head of Department, Investment Banks	11/04/2016
6.	IMA Permission amended to include introduction of a spot-volatility grid and introduction of non-linear interest rate partial revaluation approximation RNIV (ACTS 17415).	Laura Winchester, Head of Department, Investment Banks	7/11/2016
7.	IMA Permission amended to IR Partial PV01 into Equity VaR (ACTS 23171)	Laura Winchester, Head of Department, Investment Banks	13/06/2017
8.	IMA Permission amended to approve model changes from 4-year VaR to 1-year VaR and the equity specific risk proxy methodology. (ACTS 27193)	Laura Winchester, Head of Department, Investment Banks	22/02/2018

9.	IMA Permission varied to approve changes to IRC methodology. (ACTS 31670)	Jonathan Rand, Head of Division, US Banks	01/03/2019
10.	IMA Permission varied to include MSESE and MSBAG to the consolidated permission, and to include Frankfurt as a trading location. (ACTS 32049)	Laura Winchester, Head of Division, Investment Banks	01/03/2019
11.	IMA Permission varied to approve changes to VaR/SVaR methodology. (ACTS 32011)	Laura Winchester, Head of Division, Investment Banks	15/03/2019
12.	IMA VaR Multiplier revised. (ACTS 33581)	Laura Winchester, Head of Division, Investment Banks	26/04/2019
13.	IMA Permission varied to approve changes to SVaR methodology (ACTS 32767)	Laura Winchester, Head of Division, Major Overseas Banks	28/04/2020
14.	Variation in Reporting Requirements	Laura Winchester, Head of Division, Major Overseas Banks	18/06/2020
15.	Exclusion of specific VaR back-testing exceptions, granted under Article 500(c) (ACTS 40986): <ul style="list-style-type: none"> - 10 Mar 2020 - 17 Mar 2020 - 19 Mar 2020 - 24 Mar 2020 - 31 Mar 2020 	Laura Winchester, Head of Division, Major Overseas Banks	17/11/2020
16.	LIBOR/RFR transition related changes in pricing framework for uncollateralised derivatives and corporate bond collateralised trades (ACTS 42448)	Laura Winchester, Head of Division, Major Overseas Banks	23/02/2021
17.	EQ spot time series backfilling methodology update and removal of asynchronicity adjustment	Talib Idris, Head of Division, Major Overseas Banks	25/08/2021
18.	Implementation of LIBOR fallback pricing for GBP, CHF, EUR, and JPY currencies (D000001848)	Talib Idris, Head of Division, Major Overseas Banks	03/11/2021

19.	Implementation of a full revaluation VaR model for equities (not including Growth Spreads risk factor) (RWM D000002498)	Talib Idris, Head of Division, Major Overseas Banks	01/12/2022
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Note on disclosure

The PRA has decided not to publish the full text and annexes of IMA permission notices as it has been deemed inappropriate and unnecessary. In particular, to do so might prejudice, to an unreasonable degree, the commercial interests of the firms concerned.

However, in the interests of transparency, the PRA’s policy is to publish an abridged version of the permission notice, as a record that the IMA permission has been granted.