



WRITTEN NOTICE
IMA PERMISSION

To: **Morgan Stanley International Limited (“MSI”) (FRN: 218356)**
(the “company”)

Date: 20 December 2021

DECISIONS

1. In accordance with Chapter 5, Part 3, Title IV 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 as it forms part of retained EU law (the “CRR”), the PRA has decided to grant the company on the consolidated situation of MSI in relation to the exposures incurred by Morgan Stanley & Co. International Plc (“MSIP”), Morgan Stanley Europe SE (“MSESE”) and Morgan Stanley Bank AG (“MSBAG”), permission to use the internal model approach in its calculation of own funds requirements for market risk on the terms and conditions set out in Annex 1 (the “IMA Permission”).
2. If the company ceases to comply with the conditions for granting of this IMA Permission set out in Sections 1-5, Chapter 5, Part 3, Title IV of the CRR, and the terms and conditions of the IMA Permission set out in Annex 1, the PRA will re-consider the terms and conditions of the IMA Permission and the requirements relevant to it, including a revocation of the IMA Permission in whole or in part.
3. The IMA Permission takes effect on 20 December 2021.

4. Details of the IMA Permission will be published. The full text of this Decision Notice will not be published.
5. Annex 2 summarises any permissions previously granted by the PRA under CRR in connection with the IMA Permission.

The decision was taken by SRPC

ANNEX 1**THE INTERNAL MODEL APPROACH PERMISSION****Legal Entities**

1. The IMA Permission means that the company may use:
 - a. 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 1-5, Chapter 5, Part 3, Title IV of the CRR.

Other Matters

2. For the purposes of Article 373 of the CRR, the company shall not include listed equity positions and derivative positions based on listed equities in the scope of its IRC model.

ANNEX 2

EXPECTATIONS RELEVANT TO THE IMA PERMISSION

1. The PRA expectation is that the 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. Each report must 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 company'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 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 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 3**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): - 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.	Talib Idris, Head of Division, Major Overseas Banks	03/11/2021
19.	Permissions granted to the Holding Company on a consolidated basis.	SRPC	20/12/2021

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 company. 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.