



WRITTEN NOTICE
IMM PERMISSION

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

Date: 20 December 2021

DECISIONS:

1. In accordance with the discretions afforded to the PRA by Section 6, Chapter 6, Title II, 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 as it forms part of retained EU law (the “CRR”), the PRA has decided to grant the company on the basis of its consolidated situation, permission to use the Internal Model Method in its calculation of own funds requirements for counterparty credit risk on the terms and conditions set out in Annex 1 (the “IMM Permission”).
2. If the company ceases to comply with the conditions for the grant of this IMM Permission set out in the Section 6, Chapter 6, Title II, Part 3 of the CRR, and the terms and conditions of the IMM Permission set out in Annex 1, the PRA will re-consider the terms and conditions of the IMM Permission and the requirements relevant to it, including a revocation of the IMM Permission in whole or in part.
3. The IMM Permission take effect on 20 December 2021.
4. Details of the IMM Permission will be published. The full text of this Decision Notice will not be published.

This decision was taken by SRPC



ANNEX 1

THE INTERNAL MODEL METHOD PERMISSION

Definition

1. The IMM Permission means that the company may use - on the consolidated situation of MSI - the internal model method in its calculation of own funds requirements for counterparty credit risk in relation to the exposures described in paragraph 2 of this Annex in accordance with Section 6, Chapter 6, Title II, Part 3 of the CRR.



ANNEX 2

EXPECTATIONS RELEVANT TO THE IMM PERMISSION

1. The PRA's expectation is that the company will collect, record, and report to the PRA the following information no later than 20 business days after the end of each quarter:
 - 1.1. For IMM portfolios: total counterparty credit risk ("CCR") Exposures at Default ("EAD") and CCR Risk Weighted Assets ("RWAs") at aggregate level across the whole portfolio held by MSBIL on the consolidated situation of MSI with the breakdown in those EAD and RWAs expressed to be calculated in accordance with IMM or in the event that certain transactions within an IMM portfolio are not amenable to IMM then the Mark to Market Method under Article 274 CRR; ;
 - 1.2. For non-IMM portfolios: total CCR EAD and CCR RWAs at aggregate level across the whole portfolio held by MSBIL on the consolidated situation of MSI with the breakdown in those EAD and RWAs expressed to be calculated using:
 - 1.2.1. the Mark to Market Method under Article 274 CRR; and
 - 1.2.2. the Supervisory volatility adjustment approach for master netting agreements under Article 220 or the Financial Collateral Comprehensive Method under Article 223, in both cases with reference to supervisory volatility adjustments provided for under Article 224
 - 1.3. its exposures divided by exposure type (OTC derivatives, listed derivatives, repurchase transactions, securities or commodities lending or borrowing transactions and margin lending transactions), counterparty sector and by counterparty credit rating, showing both level and trend;
 - 1.4. the composition of collateral for OTC derivatives, showing both average level of collateral types and trend by collateral type;
 - 1.5. backtesting results on representative (actual or hypothetical) counterparty portfolios, including the results on the following:
 - 10, 20 or 40-day backtesting for collateralised transactions of OTC derivatives;
 - backtesting over at least a year for representative uncollateralised transactions;
 - 1.6. where the model relies on mapping to proxy transactions, or on proxy market data, a list of the affected products showing both the level and trend of these products and the results of the analysis to estimate the appropriateness of proxies for counterparty credit risk exposure calculation.
 - 1.7. the results and analysis performed to calculate all capital adjustments held where there are identified limitations in the firm's CCR models and processes.
2. The PRA expectation is that the company will inform the PRA in a timely manner of any event that may have a significant impact on its IMM permission, including in particular:
 - 2.1. changes to the list of asset classes, products or counterparties listed in Table 1 of Annex 1;
 - 2.2. use of a different model for exposure calculations under the IMM permission;



- 2.3. changes to governance or senior management arrangements in relation to the IMM permission; and
- 2.4. changes to the volumes or trends of trading for assets classes, products or counterparties listed in Table 1 of Annex 1.
- 2.5. changes to the volumes or trends of trading for legal entities in the scope of the IMM permission.



ANNEX 3

VERSION CONTROL

Version	Comment	Authorisation	Date
1.2	IMM Permission issued.	Megan Butler	24/12/2013
2.0	IMM Permission amended to remove Morgan Stanley Securities Limited, adding: <ul style="list-style-type: none">• requirement for quarterly information to be provided within 20 days ;• reference to non-EEA subgroups; clarifying scope of application.	Laura Winchester	28/09/2015
3.0	IMM Permission amended to effect implementation of: <ul style="list-style-type: none">• the Least-Squares Monte Carlo Method (LSM) and• numerical solutions of the Fenyman-Kac Partial Differential Equation (PDE).	Laura Winchester	18/01/2018
4.0	IMM Permission amended to reduce the IMM Alpha Multiplier from 1.5 to 1.4	Laura Winchester	18/03/2019
5.0	IMM Permission extended to cover CDS Index Options	Laura Winchester	17/11/2020
6.0	IMM Permission extended to cover Securities Financing Transactions	Laura Winchester	05/07/2021
7.0	Granting permission to the Financial 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 IMM 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 IMM permission has been granted.