



WRITTEN NOTICE: IRB PERMISSION

To: Morgan Stanley Bank International plc.

On a solo basis:

Entity	Jurisdiction
Morgan Stanley & Co International Plc (MSIP) (165935)	UK
Morgan Stanley Bank International Ltd (MSBIL) (195430)	UK
Morgan Stanley Investment Management Ltd (MSIM) (121920)	UK

On a consolidated basis:

Entity	Jurisdiction
Morgan Stanley Bank International Ltd (MSBIL) (195430)	UK

Each a “firm” and together the “firms”.

Of: 25 Cabot Square, Canary Wharf, E14 4QA

Ref 00003057 – MSIP, 00003058 – MSBIL & 00003059 – MSIM

Date: 10 August 2021

DECISIONS

1. In November 2007, the firms were granted an IRB waiver under s138A of the Financial Services and Markets Act 2000 (the “Act”) by the Prudential Regulation Authority (“PRA”). In accordance with Waivers Transitional Provisions 2.1(2) of the PRA Rulebook the firm’s IRB waiver took effect on 1 January 2014 as permissions granted by the PRA under Chapter 3, Title II, Part Three 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”). Accordingly the firms have been granted the permission to calculate its risk weighted exposure amounts using the Internal Ratings Based Approach (“IRB Approach”) on the terms and conditions set out in Annex 1 and Annex 3 (the “IRB Permission”).



2. Further to Article 101 and 104 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the “CRD”), the PRA has decided to grant MSBIL on the basis of its consolidated situation the matters specified in Annex 2 as requirements under section 55M (5) of the Financial Services and Markets Act 2000 (the “Act”).
3. If a firm ceases to comply with the conditions for granting of this IRB Permission set out in Chapter 3, Title II, Part Three of the CRR, the terms and conditions of the IRB Permission set out in Annex 1, and/or any of the requirements set out in Annex 2, the PRA will re-consider the terms and conditions of the IRB Permission and the requirements relevant to it, including a revocation of the IRB Permission in whole or in part.
4. The IRB Permission takes effect on 10 August 2021.

PROCEDURAL MATTERS

5. If a firm wishes to challenge the decisions taken by the PRA in relation to the IRB Permission, the firm may refer the matter to the Upper Tribunal.
6. Details of the IRB Permission will be published and the related requirements sought under section 55M of the Act on the Financial Services Register.
7. Further details of procedural matters are contained in Annex 3.

Talib Idris

Head of Division, Major Overseas Banks, International Banks Directorate



ANNEX 1

THE INTERNAL RATINGS BASED PERMISSION

Legal Entities

1. The IRB Permission means that the firms may apply the internal ratings based approach to the legal entities in its calculation of own funds requirements on the following basis:
 - a. MSBIL on the consolidated situation of Morgan Stanley International Limited, including regulated and unregulated entities;
 - b. MSIP, MSBIL and MSIM on an individual basis; and
 - c. MSIP and MSBIL on the basis of its sub-consolidated situation pursuant to Article 22 CRR;
2. Each firm must calculate its risk-weighted exposure amounts for the categories of exposure identified in Table 1 of Schedule 1 (with the exception of the permanent exemptions and any exposures still subject to sequential implementation) using the IRB Approach, to the extent, in the manner and subject to the conditions set out in this IRB Permission, and in accordance with Table 1 in Schedule 1.

Ratings Systems

3. Each firm is permitted to use the ratings systems and internal models approaches to equity exposures (together the “Ratings Systems”) as specified in the documentation contained in the firms’ IRB Approach file (reference ACTS 11241) comprising its IRB Approach application documentation, as modified by all changes and specifications notified to the firm by the PRA, including those specified in this IRB Permission Notice, all changes and extensions notified by the firm and accepted by the PRA, and all material changes and extensions for which permission has been granted by the PRA noted in Annex 4.

Permanent partial use

4. Each firm is permitted to apply the Standardised Approach for the exposures listed in Table 2 Schedule 1 in accordance with art 150 of the CRR.

Reversion to the Standardised Approach under CRR art 149

5. The applicants are permitted to revert to the use the Standardised Approach for the calculation of risk-weighted exposure amounts for the exposure classes or types of exposure listed in Table 3 in Schedule 1. This paragraph does not apply to this IRB Permission.

Reversion to CRR art 151(8) LGD/Conversion factors under CRR art 149

6. The applicants are permitted to revert to the use of LGD and conversion factors referred to in CRR art 151(8) for the calculation of risk-weighted exposure amounts for the exposure classes or types of exposure listed in Table 4 in Schedule 1. This paragraph does not apply to this IRB Permission.

Sequential implementation

7. The applicants are permitted to implement the IRB Approach sequentially in accordance with Table 5 in Schedule 1 in accordance with art 148 of the CRR. This paragraph does not apply to this IRB Permission.



Treatment by exposure class

8. The applicants are permitted to use the approaches in Article 155(3) and (4) for equity exposures as set out in Table 1 of Schedule 1. This paragraph does not apply to this IRB Permission..
9. The applicants are permitted to use its own estimates of LGDs and conversion factors for the exposure classes as set out in Table 1 of Schedule 1. This paragraph does not apply to this IRB Permission.

Maturity under art 162 of the CRR

10. To the extent that the firm does not have permission to use own estimates of LGDs and conversion factors it shall calculate maturity as set out under CRR Article 162(2) and 162(3).

Definition of default

11. 90 days is replaced with 180 days in CRR Article 178(1)(b) for exposures secured by [residential real estate in the retail exposure class][, SME commercial immoveable property in the retail exposure class] [exposures to public sector entities]. This paragraph does not apply to this IRB Permission.

Unfunded credit protection

12. The applicants may recognise unfunded credit protection by adjusting [PD][LGD]. This paragraph does not apply to this IRB Permission.

Eligible collateral

13. The applicants may use as eligible collateral the following type[s] of physical collateral: [specify] This paragraph does not apply to this IRB Permission.

Further specifications

14. The applicants must comply with the further specifications set out in Schedule 2.

Slotting

15. Each firm is permitted to apply the supervisory slotting criteria approach for specialised lending exposures in respect to real estate in compliance with Article 153 (5) CRR¹.

Material, significant and other changes

16. In accordance with Article 143(3), (4) of the CRR and the Delegated Regulation (EU) No 529/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for assessing the materiality of

¹ This should be read in conjunction with supervisory statement 11/13.



extensions and changes of the Internal Ratings Based Approach and the Advanced Measurement (as amended),

(1) the firm will require a further permission from the PRA in respect of the following changes to the IRB Permission:

- (a) material changes to the range of application of a ratings system or an internal models approach to equity exposures; or
- (b) material changes to a ratings system or an internal models approach to equity exposures; and

(2) the firms must notify the PRA of all changes to ratings systems and internal models approaches to equity exposures subject to the IRB Permission.

17. In accordance with Article 143(3) of the CRR, the PRA has granted permission for material changes as set out in Annex 4.



SCHEDULE 1

High level scope and coverage of IRB permission.

The PRA has granted the IRB permission for the categories and types of exposures identified in Table 1 below with the exception of the permanent exemptions in Table 2.

Table 1

<i>IRB exposure classes</i>	<i>Sub-classes (& art 155 approach, if applicable)</i>	<i>Country</i>	<i>Own estimates of LGDs and Conversion Factors (tick if apply)</i>	<i>Additional Notes</i>
Exposures on central governments and central banks	Yes	All	No	
Exposures on institutions	Yes	All	No	
Exposures on corporates	Yes	All	No	
Retail exposures	Not Applicable	Not Applicable	No	
Equity exposures	See Note 1 below	See Note 1 below	No	
Securitisation positions	See Note 2 below	See Note 2 below	No	
Non credit-obligation assets	No	Not applicable	No	

Note 1: The firms are allowed to use the simple risk weight approach set out in Article 155.2 to calculate risk weighted exposure amounts for equity exposures in accordance with Article 155.1 of the CRR.

Note 2: The firms are allowed to use the Ratings Based Method set out in Article 261 to calculate the risk-weighted exposure amount for rated securitisation positions or securitised positions in respect of which an inferred rating may be used in accordance with Article 259.1(a) of the CRR. The approach in Article 251 is applied to calculate the risk-weighted exposure amount for securitisation positions where the firm does not have permission to use the IRB approach for the underlying exposure of the securitisation positions.



ANNEX 2

REQUIREMENTS RELEVANT TO THE IRB PERMISSION THAT THE FIRMS HAVE APPLIED FOR AND THE PRA HAS IMPOSED UNDER S55M(5) OF THE ACT

Reporting Requirements

The firm must comply with certain requirements under this IRB permission relating to the submission of certain information to the PRA.



ANNEX 3

PROCEDURAL MATTERS

Decision-Maker

1. The decision which gave rise to the obligation to give this Notice was made by the *Head of Division, Investment Banks Division, International Banks Directorate* by delegation from the Senior Risk and Policy Committee (SRPC).

The Tribunal

2. The firm has the right to refer the decision to grant the IRB 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.
3. A reference to the Tribunal can be made by way of a reference notice (Form FTC3) signed by the firm and filed with a copy of this Written Notice. The Tribunal’s contact details are: The Upper Tribunal, Tax and Chancery Chamber, 45 Bedford Square, London WC1B 3DN (telephone: 020 7612 9700; email: financeandtaxappeals@tribunals.gsi.gov.uk). Further details are contained in “Making a Reference to the UPPER TRIBUNAL (Tax and Chancery Chamber)” which is available from the Tribunal website: <http://www.tribunals.gov.uk/financeandtax/FormsGuidance.htm>.
4. The firm should note that a copy of the reference notice (Form FTC3) must be sent to the PRA at the same time that a reference is filed with the Tribunal. A copy of the reference notice should be sent to Peter Williams at the PRA, 20 Moorgate, London EC2R 6DA.

PRA contacts

5. For more information concerning this matter generally, the firm should contact their normal Supervisory contact.



Annex 4

VERSION CONTROL SCHEDULE

**NOTICES OF MATERIAL CHANGES AND EXTENSIONS TO IRB
PERMISSION**

Version	Comment	Authorisation	Date
1.0	IRB Direction issued.	Morgan Stanley Relationship Management team	06th November 2007
1.1	Removal of Morgan Stanley Securities ACD Ltd.	ACTS reference number 11241	28th November 2007
1.2	Removal of Morgan Stanley Capital Group Limited “MSCGL” due to de-authorisation of this entity.	Andy Murfin.	10th August 2012
1.3	Removal of Morgan Stanley Investment Management ACD Ltd and Morgan Stanley & Co. Ltd.	ACTS reference number 11241	1st January 2014
1.4	Removal of Morgan Stanley Securities Ltd due to de-authorisation of this entity.	ACTS reference number 11241	25th September 2015
1.5	Morgan Stanley was given permission to implement a revised probability of default (PD) methodology.	ACTS reference number 11089	11th April 2016
1.6	Morgan Stanley was given permission to apply the supervisory slotting criteria approach.	ACTS reference number 8563	06th July 2016
2	Repapered waiver direction into a CRR Written Notice.	ACTS reference number 11241	28th November 2016
3	Morgan Stanley was given permission change the Bank’s probability of default methodology.	ACTS reference number 23648	18 th September 2017
3.1	Morgan Stanley was given permission to change the Bank’s methodology for Sovereign Supported Credit.	ACTS reference number 25939	18 January 2018
3.2	Morgan Stanley was given permission to implement a new rating methodology for Hybrid Funds.	ACTS reference number 27179	6 th June 2018
3.3	Morgan Stanley was given permission to amend their model used to rate subsidiaries and holding companies of insurance companies.	ACTS reference number 32043	12 th November 2018



3.4	Morgan Stanley was given permission to introduce a new model methodology to rate Supranationals	ACTS reference number 33119	19 th February 2019
3.5	Morgan Stanley was given permission to amend their model used to rate Foreign, Regional and Local Governments.	ACTS reference number 35421	19 th June 2019
3.6	Morgan Stanley was given permission to implement an updated rating methodology to cover Central Counterparties (CCPs).	ACTS reference number 36203	3 rd December 2019
3.7	Morgan Stanley was given permission to implement a redeveloped rating methodology for Broker-Dealers to replace their existing model.	ACTS reference number 36384	21 st August 2020
3.8	Morgan Stanley was given permission to implement a Margin of Conservatism framework.	ACTS reference number: 40378	6 th November 2020
3.9	Morgan Stanley was given permission to change its Definition of Default.	ACTS reference number: 40376	6 th November 2020
4.0	Morgan Stanley was given permission to implement a redeveloped rating methodology for its Global Insurance model.	ACTS reference number: 38575	17 th December 2020
4.1	Morgan Stanley was given permission to implement a redeveloped rating methodology for its Universities and Schools model.	ACTS reference number: 38564	17 th December 2020
4.2	Morgan Stanley was given permission to implement a redeveloped rating methodology for its Not-For-Profit (NFP) Healthcare model.	ACTS reference number: 38570	17 th December 2020
4.3	Morgan Stanley was given permission to implement a redeveloped rating methodology for leveraged funds.	ACTS reference number: 40805	16 th February 2021



4.4	Morgan Stanley was given permission to implement a redeveloped rating methodology for non-leveraged funds.	ACTS reference number: 40809	16th February 2021
4.5	Morgan Stanley was given permission to change the Bank's probability of default methodology.	ACTS reference number: 40377	10th August 2021