SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-93475]

October 29, 2021

Order Regarding Net Capital and Initial Margin Computations for Morgan Stanley Capital Services LLC

Morgan Stanley Capital Services LLC ("MSCS") has submitted an application to the Securities and Exchange Commission ("Commission"): (1) for authorization to use the market and credit risk standards of paragraphs (d) through (f) of Rule 18a-1 to the Securities Exchange Act of 1934 ("Exchange Act"),[1] and (2) for authorization to use and be responsible for a model to calculate the initial margin amount required by paragraph (c)(1)(i)(B) of Rule 18a-3, using the model requirements of paragraph (d)(2)(i) of Rule 18a-3.[2]

For market risk, paragraphs (d) through (f) require that a firm utilize a VaR model that utilizes a 99 percent, one-tailed confidence level with price changes equivalent to a ten business-day movement in rates and prices. For credit risk, paragraphs (d) through (f) require that a firm utilize a maximum potential exposure model equivalent to the VaR of the counterparty's positions with a 99 percent, one-tailed confidence level with price changes equivalent to a one-year movement in rates and prices; or based on a review of the security-based swap dealer's procedures for managing collateral and if the collateral is

1 See 17 CFR 240.18a-1(d); 17 CFR 240.18a-1(e); and 17 CFR 240.18a-1(f).

2 See 17 CFR 240.18a-1(d)(2)(i) through (ii). The application for authorization to use and be responsible for a model to calculate the initial margin amount required by paragraph (c)(1)(i)(B) of Rule 18a-3 is subject to the application process in paragraph (d) to Rule 18a-1. See 17 CFR 240.18a-3(d)(2)(i) through (ii); 17 CFR 240.18a-1(d). See also 17 CFR 240.18a-3(e).

marked to market daily and the firm has the ability to call for additional collateral daily the Commission may approve a time horizon of not less than ten business days.[3]

Rule 18a-3(d)(2)(i) requires the initial margin model use a 99 percent, one-tailed confidence level with price changes equivalent to a ten business-day movement in rates and prices, and must use risk factors sufficient to cover all the material price risks inherent in the positions for which the initial margin amount is being calculated, including foreign exchange or interest rate risk, credit risk, equity risk, and commodity risk, as appropriate. Empirical correlations may be recognized by the model within each broad risk category, but not across broad risk categories.

Based on a review of the application that MSCS submitted, including an assessment of the adequacy of the firm's internal risk management controls, the mathematical models the firm will use for internal risk management and regulatory capital and margin purposes, and the firm's financial position, the Commission has determined that the application meets the requirements of paragraphs (d) through (f) of Rule 18a-1 and paragraph (d)(2)(i) of Rule 18a-3.

Using the market and credit risk standards of paragraphs (d) through (f) of Rule 18a-1 for calculating net capital, and the model requirements of paragraph (d)(2)(i) of Rule 18a-3 for calculating the initial margin amount, should help MSCS align its supervisory risk management practices and regulatory capital and margin requirements more closely, and would adequately capture the material risks. As a result, this also should help to ensure the integrity of the risk measurement, monitoring and management

[3] See 17 CFR 240.18a-1(e)(2)(iii)(B) and 17 CFR 240.18a-1(d)(9)(ii)(B).

process. The Commission, therefore, finds that approval of the application is necessary or appropriate in the public interest or for the protection of investors.

Accordingly, IT IS ORDERED, under paragraph (d)(5)(i) of Rule 18a-1[4] to the Exchange Act, that MSCS may:

(1) Calculate net capital using the market and credit risk standards of paragraphs (d) through (f) of Rule 18a-1 to compute a deduction for market and credit risk on some or all its positions instead of the provisions of paragraphs (c)(1)(iii), (iv), (vi), (vii), and (c)(1)(ix)(A) and (B) of Rule 18a-1 and Rule 18a-1b;[5] and

(2) Use and be responsible for a model to calculate the initial margin amount required by paragraph (c)(1)(i)(B) of Rule 18a-3 for non-cleared security-based swaps under paragraphs (d)(2)(i) through (ii) of Rule 18a-3, using the model requirements in paragraph (d)(2)(i) of Rule 18a-3.

By the Commission.

J. Matthew DeLesDernier,

Assistant Secretary.

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4 See 17 CFR 240.18a-1(d)(5)(i).

5 See 17 CFR 240.18a-1(c)(1)(iii) and (iv); 17 CFR 240. 18a-1(c)(1)(vi) and (vii); 17 CFR 240.18a-1(c)(1)(ix)(A) and (B); and 17 CFR 240.18a-1b.