



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

August 17, 2021

Mr. Andrew Nash
Managing Director
Morgan Stanley
1633 Broadway
New York, New York 10019

Dear Mr. Nash:

This is in response to the request by Morgan Stanley, New York, New York, for approval to determine the risk-weighted asset (RWA) amount for default fund contributions to qualifying central counterparties (QCCPs) in Japan under an alternative method available under section 217.133(d)(6)(vi) of the Board's capital rule.¹

Advanced approaches banking organizations must use the standardized approach for counterparty credit risk (SA-CCR) when calculating RWA amounts for exposures covered by SA-CCR, beginning January 1, 2022. Board-regulated institutions using SA-CCR must, in certain circumstances, calculate the RWA amount for contributions to a QCCP's default fund using the QCCP's hypothetical capital requirement (K_{CCP}) as calculated by (1) the Board-regulated institution using SA-CCR or (2) a substantially identical methodology in a foreign jurisdiction.² In Japan, the implementation of a methodology substantially identical to SA-CCR will not be in effect by January 1, 2022, and instead is expected to take effect later in 2022.

The capital rule provides that a Board-regulated institution that has adopted SA-CCR may, with the prior approval of the Board, calculate its RWA amount for a default fund contribution to a QCCP using method 1 of the default

¹ See 12 CFR 217.133(d)(6)(vi); see also 12 CFR 217.132(c).

² 12 CFR 217.133(d)(6)(ii).

fund contribution framework under subpart D of the capital rule rather than under the default fund contribution framework under subpart E of the capital rule, which is based on SA-CCR.³ Morgan Stanley requests approval to calculate the RWA amount for its default fund contributions to QCCPs in Japan using method 1, beginning January 1, 2022, or, if earlier, on the first day of the calendar quarter that Morgan Stanley begins using SA-CCR for purposes of the capital rule through the day that is 30 days after the effective date in Japan of a methodology substantially identical to SA-CCR.

Based on all the facts of record, the Director of the Division of Supervision and Regulation, acting under authority delegated by the Board, has granted Morgan Stanley's request.⁴ This decision is based on the specific facts and representations in the request and in related communications with Board staff. Any change in these facts or representations should be communicated immediately to Board staff and could result in a different conclusion. Morgan Stanley should notify Board staff if a methodology substantially similar to SA-CCR is not effective in Japan by January 1, 2023.

Please contact David Lynch, Deputy Associate Director, Division of Supervision and Regulation (202-452-2081), with any questions.

Very truly yours,



Margaret McCloskey Shanks
Deputy Secretary of the Board

³ 12 CFR 217.133(d)(6)(vi) (referring to 12 CFR 217.35(d)(3)(ii)).

⁴ This approval is limited to QCCPs that have not provided a K_{CCP} to Morgan Stanley. See 12 CFR 217.133(d)(5).