

Interpretive Letter #1195
September 2026

September 3, 2026

Colin D. Lloyd
Sullivan & Cromwell LLP
125 Broad Street
New York, NY 10004-2498**Subject: Morgan Stanley Bank, N.A., Request for No-Action Position in Connection with
Interaffiliate Margin**

Dear Mr. Lloyd:

This letter is in response to your April 9, 2026, letter on behalf of Morgan Stanley Bank, N.A., (the Bank) requesting relief from the interaffiliate initial margin requirements of the Office of the Comptroller of the Currency's (OCC) swap margin rule at 12 C.F.R. part 45. Based on the Bank's representations in the letter and supplementary submissions, and for the reasons discussed below, OCC staff will not recommend that the OCC take enforcement action against the Bank or its subsidiaries that are covered swap entities for failing to collect initial margin from affiliates under 12 C.F.R. § 45.11(a) of the swap margin rule.

The OCC, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Farm Credit Administration, and Federal Housing Finance Agency (prudential regulators) enacted the swap margin rule to establish minimum margin requirements for covered swap entities subject to their respective jurisdictions. Related margin rules adopted by the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC) apply to swap dealers and security-based swap dealers that are not subject to the prudential regulators' rule.

The swap margin rules generally require covered swap entities to exchange initial and variation margin on non-cleared swaps and non-cleared security-based swaps (swaps). Unlike the CFTC's or SEC's rules, the prudential regulators' swap margin rule also includes distinct initial margin obligations for swaps between affiliates. Specifically, the prudential regulators' rule requires covered swap entities not only to exchange variation margin with affiliates, but also to calculate the initial margin amount for certain affiliates and collect initial margin if the aggregate amount of initial margin across those affiliates exceeds 15% of the covered swap entity's tier 1 capital. When the prudential regulators adopted this 15% interaffiliate margin threshold, no covered swap entity had met or was approaching that threshold.¹

Banks use interaffiliate swaps for internal risk management and to centrally manage market and credit risk, while reducing transaction costs. Emphasizing these points, the Bank has requested relief from the

¹ Margin and Capital Requirements for Covered Swap Entities, 85 FR 39754, 39762 (Jul. 1, 2020).

OCC's interaffiliate initial margin requirements because—according to the Bank—they create a practical impediment to its risk-reducing internal hedging. In particular, the Bank asserts that the interaffiliate margin requirements are operationally demanding and resource intensive, imposing (1) additional compliance, asset-liability management, controls, and audit burdens and (2) bifurcated processes for swaps that require interaffiliate margin. The Bank also notes that because the SEC and CFTC do not have similar rules, the prudential regulators' requirements lead to competitive disparities.

In addition, the Bank has identified certain developments since 2020 that have increased its derivatives trading activity. Specifically, Morgan Stanley merged its fixed income derivatives business into the Bank this year, resulting in a higher volume of client-facing swaps and interaffiliate transactions needed for central risk management. The Bank also states that certain regulatory changes have caused Morgan Stanley to re-evaluate the mix of business activities across affiliates within the Morgan Stanley group. For example, in 2020, the OCC adopted 12 C.F.R. § 7.1030, which provided national banks clarity on permitted derivatives activity by streamlining and incorporating interpretive letters regarding derivatives permissibility.² Around the same time, the CFTC and SEC finalized capital rules for non-bank swap dealers and security-based swap dealers, respectively.³

Interaffiliate swaps are valuable in managing market and credit risk across complex banking organizations. Moreover, several other regulatory safeguards—including variation margin and affiliate transaction restrictions—help to mitigate potential affiliate-related risks. In addition, the Bank's common equity, tier 1, and total capital ratios all exceed 18 percent, as reported on the Bank's most recent Call Report. In light of these circumstances and the Bank's representations, OCC staff will not recommend that the OCC take enforcement action against the Bank or its subsidiaries for noncompliance with the requirements to collect initial margin under 12 C.F.R. § 45.11.

The no-action relief described in this letter is based on the Bank's representations and facts specific to the Bank. Different facts could require different conclusions. In addition, this no-action relief is limited to three years and to the current swap margin rule's interaffiliate initial margin collection requirements. The Bank must continue to exchange variation margin with covered affiliate counterparties. If you have any questions about this matter, please contact Allison Hester-Haddad, Special Counsel, or Mark O'Horo, Special Counsel, at 202-649-5490.

Sincerely,

/s/

Will Giles
Principal Deputy Chief Counsel

cc: MSBNA Supervisory Office; Chartering, Organization and Structure; CNBE

² Activities and Operations of National Banks and Federal Savings Associations, 85 FR 83686 (Dec. 22, 2020).

³ Capital Requirements of Swap Dealers and Major Swap Participants, 85 FR 57462 (Sept. 15, 2020); Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital and Segregation Requirements for Broker-Dealers, 84 FR 43872 (Aug. 22, 2019).