MORGAN STANLEY ASIA PRODUCTS LIMITED

Interim financial report

For the six months ended 30 June 2020

MORGAN STANLEY ASIA PRODUCTS LIMITED

INTERIM FINANCIAL REPORT
Six months ended 30 June 2020

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MORGAN STANLEY ASIA PRODUCTS LIMITED

INTERIM MANAGEMENT REPORT

The Directors present their interim management report, responsibility statement and condensed financial statements (which comprise the condensed statements of comprehensive income, condensed statements of changes in equity, condensed statements of financial position, condensed statements of cash flows and the related notes, 1 to 17) of Morgan Stanley Asia Products Limited (the "Company") for the six months period ended 30 June 2020.

RESULTS AND DIVIDENDS

The result for the period, after tax, was US$Nil (30 June 2019: US$Nil).

During the period, no dividends were paid or proposed (30 June 2019: US$Nil).

PRINCIPAL ACTIVITY

The principal activity of the Company is the issuance of financial instruments with primary focus on the Asia markets and the hedging of the obligations arising pursuant to such issuances.

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group".

There have not been any significant changes in the Company's principal activity in the period under review and no significant change in the Company's principal activity is expected.

BUSINESS REVIEW

Global market and economic conditions

The coronavirus disease ("COVID-19") pandemic created a severe disruption in the global economy, causing economic growth to contract by an average annual rate of 4.9% in the first half of 2020. The economic impact was broad-based, across both developed markets and emerging markets. In developed markets, the economy contracted by an annual rate of 6.5% in the first half of 2020; in emerging markets, economic activity declined by an annual rate of 3.9%. In response to the pandemic, policy makers have embarked on significant monetary and fiscal easing measures, bringing central banks' balance sheets and fiscal deficits to multi-year highs. In the US, the Federal Reserve has cut the federal funds rate to the zero lower bound and expanded its balance sheet by 14% of Gross Domestic Product ("GDP") since February. Congress is expected to pass a new stimulus package in September worth US$1.5 to US$2 trillion. If US$1.5 trillion is approved, the US fiscal deficit will likely widen to around 27.1% of GDP this year. In the euro area, the European Central Bank has expanded its balance sheet by 15% of GDP since February, and the euro area's fiscal deficit will reach 10.3% of GDP this year. Likewise, in Japan, the Bank of Japan has expanded its balance sheet by 15% of GDP since February, and the announced supplemental budgets will push the fiscal deficit to 15.1% of GDP this year. In the United Kingdom, the Bank of England has cut Bank Rate to the lower bound and expanded its balance sheet by 11%. The government has also announced various other measures, bringing its deficit to 17.2% of GDP this year.

In China, the People's Bank of China has lowered interest rates, and the fiscal support announced by the National People's Congress in May will bring China's fiscal deficit to 15.2% of GDP this year. In India, the Reserve Bank of India has cut the policy repo rate by 115 basis points since February and launched multiple liquidity provision measures such as targeted long-term repo operations and special liquidity facilities for bank and non-bank financial institutions. The government of India has also announced a series of fiscal packages that will widen its deficit to 10.3% of GDP this year. In Hong Kong, the Base Rate has been lowered by 150 basis points since February and the government has announced fiscal measures to cushion the impact of COVID-19, which will push its deficit to 12% in 2020. Other major central banks, such as Central Bank of Russia and the Central Bank of Brazil, have lowered interest rates to multi-year low as well, and governments in other economies have similarly implemented measures to ensure adequate credit flows to businesses and provide relief to households.

Covid-19 pandemic

The COVID-19 pandemic and related government-imposed shelter-in-place restrictions have had, and will likely continue to have, a severe impact on global economic conditions and the environment in which we operate our businesses. Morgan Stanley Group has begun implementing a return-to-workplace program, which is phased based on role, location and employee willingness and ability to return, and focused on the health and safety of all returning staff. Recognising that our offices around the world face different local conditions, timelines for return may vary significantly. Morgan Stanley Group continues to be fully operational, with majority of its staff working from home as of 30 June 2020.

Economic conditions have had mixed effects on the Morgan Stanley Group's businesses. High levels of client trading activity, related to market volatility, have significantly increased revenues in the Sales and Trading businesses within the Institutional Securities business segment in current period. In addition, in the current quarter, certain of the negative impacts to the Morgan Stanley Group's results in the first quarter have subsided given recoveries in public asset prices, tightening of credit spreads and an increase in underwriting activity.

Although Morgan Stanley Group is unable to estimate the extent of the impact, the ongoing COVID-19 pandemic and related global economic crisis are likely to have adverse impacts on future operating results of the Morgan Stanley Group. In addition, levels of client trading activity may not remain elevated and investment banking advisory activity may be subdued.

Morgan Stanley Group continues to use its Risk Management framework, including stress testing, to manage the significant uncertainty in the present economic and market conditions.

UK Referendum

It is difficult to predict the future of the United Kingdom's (the "U.K.") relationship with the European Union (the "E.U."), the uncertainty of which may increase the volatility in the global financial markets in the short- and medium-term and may negatively disrupt regional and global financial markets. Additionally, depending on the outcome, such uncertainty may adversely affect the manner in which we operate certain of our businesses in Europe.

On 31 January 2020, the U.K. withdrew from the E.U. under the terms of a withdrawal agreement between the U.K. and the E.U. The withdrawal agreement provides for a transition period to the end of December 2020, during which time the U.K. will continue to apply E.U. laws as if it were a member state, and U.K. firms' passporting rights to provide financial services in E.U. jurisdictions will continue.

With respect to financial services, the withdrawal agreement provides that the U.K. and the E.U. will endeavor to conclude whether they will grant each other equivalence under European financial regulations. Equivalence would provide a degree of access to E.U. markets for U.K. financial firms, although the extent and duration of such access remains subject to negotiation.

If equivalence (or any alternative arrangement) is not agreed, our U.K. licensed entities may be unable to provide regulated services in a number of E.U. jurisdictions from the end of December 2020, absent further regulatory relief.

Potential effects of the U.K. exit from the E.U. and potential mitigation actions may vary considerably depending on the nature of the future trading arrangements between the U.K. and the E.U.

While the Morgan Stanley Group has taken steps to make changes to its European operations in an effort to ensure it can continue to provide cross-border banking and investment and other services in E.U. member states without the need for separate regulatory authorizations in each member state, as a result of the political uncertainty described above, it is currently unclear what the final post-Brexit structure of its European operations will be. Given the potential negative disruption to regional and global financial markets, and depending on the extent to which it may be required to make material changes to its European operations beyond those implemented or planned, its results of operations and business prospects could be negatively affected.

MORGAN STANLEY ASIA PRODUCTS LIMITED

INTERIM MANAGEMENT REPORT (CONTINUED)

Overview of financial results

The condensed statements of comprehensive income for the period are set out on page 11. The result for the period is US$Nil which is consistent with the Company's function and the prior period. The Company hedges its issuances with derivatives classified as trading financial instruments, loans designated at fair value through profit or loss ("FVPL") and prepaid equity securities contracts. Net gains/ (losses) on trading financial liabilities and other financials liabilities held at FVPL represent fair value movements on the issued warrants and structured notes. Issued warrants, which contribute to a major population of the Company's issuance, have underlying securities predominantly in the Hong Kong, China and India markets. During the period ended 30 June 2020, the change in the value of underlying securities due to the market movements primarily in these regions, resulted in a gain of US$34,654,000 on issued derivatives reported in trading financial liabilities and on issued warrants and structured notes designated at fair value (30 June 2019: loss of US$37,558,000). As a result of the Company's hedging strategy, a corresponding loss (30 June 2019: gain) was recognised on trading financial assets and other financial assets held at fair value, which mainly represents the fair value movement on derivative contracts and prepaid equity securities contracts.

The condensed statements of financial position for the Company are set out on page 13. The Company's financial position at the end of the period shows that the total assets and total liabilities were US$181,885,000 and US$181,835,000 respectively, a decrease of 39% each from 31 December 2019. The decrease during the period is primarily driven by the retirement and maturity of issued warrants and structured notes.

Risk management

Risk is an inherent part of both Morgan Stanley and the Company's business activity and is managed by the Company within the context of the broader Morgan Stanley Group. The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures. The Company's own risk management policies and procedures are consistent with those of the Morgan Stanley Group. The risk management policy framework includes escalation to appropriate senior management of the Company.

Set out below is an overview of the Company's policies for the management of financial risk and other significant business risks. Note 13 to the condensed financial statements provides more detailed quantitative disclosures as well as qualitative information on the Company's financial risk management.

During the period ended 30 June 2020, the Company redeemed warrants valuing US$111,775,000 (30 June 2019: US$197,265,000) and issued new warrants of US$Nil (30 June 2019: US$117,176,000). The redemptions were mainly driven by retirement and maturity of the warrants. However, the Company had sufficient financial assets in the form of prepaid equity securities contracts, redeeming at the same time to meet the redemption obligations of the issued warrants. Further, all issuances of financial liabilities are guaranteed by Morgan Stanley.

The Company has also entered into a financial support agreement with its immediate parent, Morgan Stanley Asia Securities Products LLC ("MSASP") and with Morgan Stanley Hong Kong 1238 Limited ("MSHK 1238"), whereby MSASP and MSHK 1238 agree to provide financial support by way of funds injection in the form of equity capital or shareholders loan in the event the Company needs funds to fulfil its obligations and liabilities under its issuance program.

Market risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio.

The Company is subject to market price risk exposure for its issuances, however, for each issuance, the Company enters into risk-mirroring contracts to fully hedge each type of market risk arising from its issuances. Accordingly, the Company has no net exposure to market risk.

The Morgan Stanley Group manages the market risk associated with its trading activities on a global basis, at both a trading division and an individual product level and includes consideration of market risk at the legal entity level.

Market risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to the appropriate senior management.

It is the policy and objective of the Company not to be exposed to market risk on a net basis as a result of its issuance activities.

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company.

Credit risk exposure is managed on a global basis. Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate senior management personnel.

Liquidity risk

Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk also encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

The primary goal of the Morgan Stanley Group's liquidity risk management framework is to ensure that the Morgan Stanley Group, including the Company, have access to adequate funding across a wide range of market conditions and time horizons. The framework is designed to enable the Morgan Stanley Group to fulfil its financial obligations and support the execution of the Company's business strategies. The framework is further described in Note 13.

The Company hedges all of its financial liabilities with financial assets entered into, with its immediate parent and other Morgan Stanley Group undertakings and other financial assets.

The maturity analysis provided in Note 13 reflects the liquidity risk arising from the financial assets and the financial liabilities presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company. As at 30 June 2020, the Company has a payable of US$173,943,000 (31 December 2019: US$283,603,000) within one year from the date of the condensed financial statements. As a result of the Company's hedging strategy, the Company has adequate financial assets to meet the settlement of this obligation. As at 30 June 2020, the Company had financial assets of US$181,518,000 (31 December 2019: US$289,168,000) expected to be maturing within one year from the date of the condensed financial statements.

Operational risk

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, from human factors or from external events (e.g. fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. Legal, regulatory and compliance risk is discussed below under "Legal, regulatory and compliance risk".

The Company, through the Morgan Stanley Group, has established an operational risk framework to identify, measure, monitor and control risk. It includes escalation to the Company's Board of Directors and appropriate senior management personnel. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal and reputational risks. The framework is continually evolving to account for changes in the Company and to respond to the changing regulatory and business environment.

The Morgan Stanley Group has implemented operational risk data and assessment systems to monitor and analyse internal and external operational risk events, to assess business environment and internal control factors and to perform scenario analysis. The collected data elements are incorporated in the operational risk capital model. The model encompasses both quantitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model, while external operational incidents, business environment and internal control factors are evaluated as part of the scenario analysis process.

In addition, the Morgan Stanley Group employs a variety of risk processes and mitigates to manage its operational risk exposures. These include a strong governance framework, a comprehensive risk management programme and insurance. Operational risks and associated risk exposures are assessed relative to the risk tolerance reviewed and confirmed by the Board and are prioritised accordingly.

The breadth and variety of operational risk are such that the types of mitigating activities are wide-ranging. Examples of activities include enhancement of defenses against cyberattacks; use of legal agreements and contracts to transfer and/or limit operational risk exposures; due diligence; implementation of enhanced policies and procedures; exception management processing controls; and segregation of duties.

The Operational Risk Department provides independent oversight of operational risk and assesses measures and monitors operational risk against tolerance. The Operational Risk Department works with the business divisions and control groups to help ensure a transparent, consistent and comprehensive framework for managing operational risk within each area and across the Morgan Stanley Group.

The Operational Risk Department scope includes oversight of the technology risk, cybersecurity risk, information security risk, fraud risk management and prevention programme and third party risk management (supplier and affiliate risk oversight and assessment) programme. Furthermore, the Operational Risk Department supports the collection and reporting of operational risk incidents and the execution of operational risk assessments; provides the infrastructure needed for risk measurement and risk management; and ensures ongoing validation and verification of the Morgan Stanley Group's advanced measurement approach for operational risk capital.

Business Continuity Management maintains programmes for business continuity management and technology disaster recovery that facilitate activities designed to mitigate risk to the Morgan Stanley Group during a business continuity event. A business continuity event is an interruption with potential impact to normal business activity of the Morgan Stanley Group's people, operations, technology, suppliers and/or facilities. The business continuity management programme's core functions are business continuity planning and crisis management. As part of business continuity planning, business divisions and control groups maintain business continuity plans identifying processes and strategies to continue business critical processes during a business continuity event. Crisis management is the process of identifying and managing the Morgan Stanley Group's operations during business continuity events. Disaster recovery plans supporting business continuity are in place for critical facilities and resources across the Morgan Stanley Group.

The Morgan Stanley Group maintains a programme that oversees our cyber and information security risks. Our cybersecurity and information security policies, procedures and technologies are designed to protect the Morgan Stanley Group's information asset against unauthorised disclosure, modification or misuse and are also designed to address regulatory requirements. These policies and procedures cover a broad range of areas, including: identification of internal and external threats, access control, data security, protective controls, detection of malicious or unauthorised activity, incident response, and recovery planning.

Legal, regulatory and compliance risk

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss; including fines, penalties, judgements, damages and/ or settlements or loss to reputation which the Company may suffer as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to the Company's business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with Anti-Money Laundering, anti-corruption and terrorist financing rules and regulations.

The Company, principally through the Morgan Stanley Group's Legal and Compliance Division, has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Morgan Stanley Group's policies relating to business conduct, ethics and practices are followed globally.

Culture, values and conduct of employees

All employees of the Morgan Stanley Group are accountable for conducting themselves in accordance with the Morgan Stanley Group's core values *Putting Clients First, Doing the Right Thing, Leading with Exceptional Ideas, Commit to Diversity and Inclusion, and Giving Back.* The Morgan Stanley Group's core values drive a shared set of behaviours and attributes that help employees make decisions consistent with the expectations of the Morgan Stanley Group's clients, shareholders, regulators, Board of Directors and the public. The Morgan Stanley Group is committed to reinforcing and confirming adherence to the core values through our governance framework, tone from the top management oversight, risk management and controls, and a three lines of defence structure (business, control functions such as Risk management and Compliance, and Internal Audit). The Morgan Stanley Group's Board is responsible for overseeing the Morgan Stanley Group's practices and procedures relating to culture, values and conduct, as set forth in the Morgan Stanley Group's Corporate Governance Policies. The Morgan Stanley Group's culture, values and conduct Committee is the senior management committee that oversees the Firm-wide culture, values and conduct program; and complements ongoing business and region-specific culture initiatives. A fundamental building block of this program is the Morgan Stanley Group's Code of Conduct (the "Code") which establishes standards for employee conduct that further reinforce the Morgan Stanley Group's commitment to integrity and ethical conduct. Every new hire and every employee annually must attest to their understanding of and adherence to the Code of Conduct.

The annual employee performance evaluation process includes an evaluation of employee conduct related to risk management practices and the Morgan Stanley Group's expectations. The Morgan Stanley Group also has several mutually reinforcing processes to identify employee conduct that may have an impact on employment status, current year compensation and/or prior year compensation. For example, the Global Incentive Compensation Discretion Policy sets forth standards for managers when making annual compensation decisions and specifically require managers to consider whether their employees effectively managed and/or supervised risk control practices during the performance year. Management committees from control functions periodically meet to discuss employees whose conduct does not meet the Firm's standards. These results are incorporated in the employees' performance evaluation, which links to compensation and promotion decisions. The Morgan Stanley Group's clawback and cancellation provisions, which permit recovery of deferred incentive compensation and cover a broad scope of employee conduct, including any act or omission (including with respect to direct supervisory responsibilities) that constitutes a breach of obligation to the Morgan Stanley Group or causes a restatement of the Morgan Stanley Group's financial results, constitutes a violation of the Morgan Stanley Group's global risk management principles, policies and standards, or causes a loss of revenue associated with a position on which the employee was paid and the employee operated outside of internal control policies.

DIRECTORS

The following Directors held office throughout the period and to the date of approval of this report (except where otherwise shown):

Adrian Priddis

Christopher Blackman (Resigned 3 March 2020)

Jason Yates

Richard Smerin

Scott Honey

Young Lee

MORGAN STANLEY ASIA PRODUCTS LIMITED

INTERIM MANAGEMENT REPORT (CONTINUED)

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

Approved by the Board and signed on its behalf

Director

Date 18 SEP 2020

MORGAN STANLEY ASIA PRODUCTS LIMITED

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors, the names of whom are set out above, confirm that to the best of their knowledge:

(a) the condensed financial statements, which have been prepared in accordance with International Accounting Standard ("IAS") 34 *'Interim Financial Reporting'*, give a true and fair view of the assets, liabilities, financial position and result of the Company; and

(b) the interim management report includes a fair review of the important events that have occurred during the period and their impact on the condensed financial statements and provides a description of the principal risks and uncertainties for the remaining six months of the financial year.

Approved by the Board and signed on its behalf on

Director

Date 18 SEP 2020

Deloitte.

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INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors of
Morgan Stanley Asia Products Limited

Introduction

We have reviewed the accompanying condensed statement of financial position of Morgan Stanley Asia Products Limited (the "Company") as of June 30, 2020 and the related condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "interim financial information").

The condensed statement of financial position as of June 30, 2019 and the related condensed statements of comprehensive income, changes in equity and cash flows for the six-month period ended June 30, 2019, were reviewed by other auditors whose report dated September 16, 2019, stated that based on their review, they were not aware of any material modifications that should be made to those statements in order for them to be in accordance with International Accounting Standard 34, *Interim Financial Reporting*. The statement of financial position of the Company as of December 31, 2019, and the related statements of comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein), were audited by other auditors whose report dated April 22, 2020, expressed an unmodified opinion on those statements.

Management's Responsibility for the Interim Financial Information

The Company's Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34, *Interim Financial Reporting*; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

Auditors' Responsibility

Our responsibility is to express a conclusion on this interim financial information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, and auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and auditing standards generally accepted in the United States of America, the objective of which are the expression of an opinion regarding the financial information, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the interim financial information for it to be in accordance with International Accounting Standard 34, *Interim Financial Reporting,* and nothing has come to our attention that causes us to believe the accompanying interim financial information does not present fairly, in all material respects, the financial position of the entity as at June 30, 2020, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

Deloitte & Touche LLP

New York, New York, USA
September 18, 2020

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
Six months ended 30 June 2020

	Note	Six months ended 30 June 2020 US$'000 (unaudited)	Six months ended 30 June 2019 US$'000 (unaudited)
Net trading expense on financial assets		(20,072)	-
Net trading income/ (expense) on financial liabilities		19,820	(7)
Net trading expense on financial instruments		**(252)**	**(7)**
Net (losses)/ gains on other financial assets held at fair value			
Net gains/ (losses) on financial assets designated at fair value through profit or loss (before interest)		22	(1)
Interest income		7	11
Net gains on financial assets designated at fair value through profit or loss		29	10
Net (losses)/ gains on non-trading financial assets at fair value through profit or loss		(14,811)	37,555
		(14,782)	37,565
Net gains/ (losses) on other financial liabilities held at fair value			
Net gains/ (losses) on financial liabilities designated at fair value through profit or loss		14,808	(37,558)
Net gains on other financial instruments held at fair value		**26**	**7**
Other revenue	2	4,371	-
Total non-interest revenue		4,145	-
Interest income	3	226	-
Net revenues		4,371	-
Non-interest expense			
Other expense	4	(4,371)	-
RESULT BEFORE INCOME TAX		-	-
Income tax	5	-	-
RESULT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		-	-

All results were derived from continuing operations.

The notes on pages 15 to 41 form an integral part of the condensed financial statements.

CONDENSED STATEMENTS OF CHANGES IN EQUITY
Six months ended 30 June 2020

	Share capital US$'000	Retained earnings US$'000	Total equity US$'000
Balance at 1 January 2019	50	-	50
Result and total comprehensive income for the period	-	-	-
Balance at 30 June 2019 (unaudited)	50	-	50
Balance at 1 January 2020	50	-	50
Result and total comprehensive income for the period	-	-	-
Balance at 30 June 2020 (unaudited)	50	-	50

The notes on pages 15 to 41 form an integral part of the condensed financial statements.

MORGAN STANLEY ASIA PRODUCTS LIMITED

CONDENSED STATEMENTS OF FINANCIAL POSITION
As at 30 June 2020

	Note	30 June 2020 US$'000 (unaudited)	31 December 2019 US$'000 (audited)
ASSETS			
Cash		879	600
Trading financial assets	7	2,671	3,991
Loans	6	-	468
Prepaid equity securities contracts	6	150,570	281,353
Trade and other receivables	8	27,765	11,559
TOTAL ASSETS		181,885	297,971
LIABILITIES AND EQUITY			
Trading financial liabilities	7	30,105	16,052
Trade and other payables	9	1,160	49
Issued warrants	6	150,570	281,353
Issued structured notes	6	-	467
TOTAL LIABILITIES		181,835	297,921
EQUITY			
Share capital	10	50	50
Retained earnings		-	-
Equity attributable to owners of the Company		50	50
TOTAL EQUITY		50	50
TOTAL LIABILITIES AND EQUITY		181,885	297,971

These condensed financial statements were approved by the Board and authorised for issue on:

Signed on behalf of the Board

18 SEP 2020

Director

The notes on pages 15 to 41 form an integral part of the condensed financial statements.

MORGAN STANLEY ASIA PRODUCTS LIMITED

CONDENSED STATEMENTS OF CASH FLOWS
Six month ended 30 June 2020

	Note	30 June 2020 US$'000 (unaudited)	30 June 2019 US$'000 (unaudited)
NET CASH FLOWS FROM OPERATING ACTIVITIES	11b	8,976	419
INVESTING ACTIVITIES			
Purchase of prepaid equity securities contracts		-	(117,176)
Purchase of derivative contracts		(28)	(5)
Proceeds from sale and maturity of prepaid equity securities contracts		111,775	197,265
Proceeds from loan repayment		490	1,375
Issue of loan to other Morgan Stanley Group undertakings		(8,697)	-
Interest received		7	11
NET CASH FLOWS FROM INVESTING ACTIVITIES		103,547	81,470
FINANCING ACTIVITIES			
Issue of warrants		-	117,176
Redemption of issued structured notes		(469)	(1,381)
Redemption of issued warrants		(111,775)	(197,265)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	11c	(112,244)	(81,470)
NET INCREASE IN CASH AND CASH EQUIVALENTS		279	419
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		600	521
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	11a	**879**	**940**

The notes on pages 15 to 41 form an integral part of the condensed financial statements.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2020

1. BASIS OF PREPARATION

Accounting policies

The Company prepares its annual financial statements in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the IFRS Interpretations Committee ("IFRIC"). The condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *'Interim Financial Reporting'*.

In preparing these condensed financial statements, the Company has applied consistently the accounting policies and methods of computation used in the Company's annual financial statements for the year ended 31 December 2019.

New standards and interpretations adopted during the period

The following amendments to standards relevant to the Company's operations were adopted during the period. These amendments to standards did not have a material impact on the Company's condensed financial statements.

Amendments to IAS 1 *'Presentation of Financial Statements'* and IAS 8 *'Accounting Policies, Changes in Accounting Estimates and Errors'*: Definition of Material were issued by the IASB in October 2018, for application in accounting periods beginning on or after 1 January 2020.

There were no other standards, amendments to standards or interpretations relevant to the Company's operations which were adopted during the period.

New standards and interpretations not yet adopted

At the date of authorisation of these condensed financial statements, the following amendments to standards relevant to the Company's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2020. Except where otherwise stated, the Company does not expect that the adoption of the following amendments to standards will have a material impact on the Company's condensed financial statements.

Amendments to IAS 1 *'Presentation of Financial Statements'*: Classification of Liabilities as Current or Non-current was issued by the IASB in January 2020, for retrospective application in accounting periods beginning on or after 1 January 2023.

As part of the 2018-2020 Annual Improvements Cycle published in May 2020, the IASB made an amendment to IFRS 9 *'Financial Instruments'*, relating to the treatment of fees in the assessment of whether financial liabilities are modified or exchanged, where such transactions occur on or after 1 January 2022. Early application is permitted.

Critical accounting judgements and key sources of estimation uncertainty

In applying the Company's accounting policies, the judgements made by management that have the most significant effect on the amounts recognised in the condensed financial statements are valuation of certain financial instruments. The Company believes that the judgements utilised in preparing the condensed financial statements are reasonable, relevant and reliable. There are no key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial period.

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the interim management report on pages 1 to 7. In addition, the notes to the condensed financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit

1. BASIS OF PREPARATION (CONTINUED)

The going concern assumption (continued)

risk and liquidity risk. Retaining sufficient liquidity and capital to withstand these market pressures remains central to the Morgan Stanley Group's strategy. In particular, the Company's capital and liquidity is deemed sufficient to deal with both a normal and in a stressed market environment, including the current and potential stresses of COVID-19 for the foreseeable future. The existing and potential effects of COVID-19 have been considered as part of the going concern analysis, including impact on operational capacity of the business, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty. The Company has access to further Morgan Stanley Group capital and liquidity as required.

Taking all these factors into consideration, the Directors believe it is reasonable to assume that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim management report and Interim Financial Statements.

2. OTHER REVENUE

	30 June 2020 US$'000	30 June 2019 US$'000
Management charges to other Morgan Stanley Group undertakings	4,343	-
Other	28	-
	4,371	-

3. INTEREST INCOME

All interest income relates to financial assets at amortised cost and is calculated using the effective interest rate ("EIR") method.

4. OTHER EXPENSE

	30 June 2020 US$'000	30 June 2019 US$'000
Fees paid to the stock exchange	4,371	-

In July 2019, the Company established a non-collateralised structured products programme ("Programme") guaranteed by Morgan Stanley in Hong Kong for the issuance of derivative warrants, callable bull/bear contracts and other structured products whereby the Programme was approved by the Stock Exchange of Hong Kong Limited ("the Exchange"). Other expense in above table represents fees incurred for listing and issuance of such products on the Exchange for the period ended 30 June 2020.

5. INCOME TAX

The Government of the Cayman Islands, has not, under existing legislation, imposed any income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax upon the Company.

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities as at 30 June 2020 and at 31 December 2019 presented in the condensed statements of financial position by IFRS 9 classifications.

30 June 2020	FVPL (mandatorily) US$'000	FVPL (designated) US$'000	Amortised cost US$'000	Total US$'000
Cash	-	-	879	879
Trading financial assets	2,671	-	-	2,671
Prepaid equity securities contracts	150,570	-	-	150,570
Trade and other receivables	-	-	27,765	27,765
Total financial assets	153,241	-	28,644	181,885
Trading financial liabilities	30,105	-	-	30,105
Trade and other payables	-	-	1,160	1,160
Issued warrants	-	150,570	-	150,570
Total financial liabilities	30,105	150,570	1,160	181,835

31 December 2019	FVPL (mandatorily) US$'000	FVPL (designated) US$'000	Amortised cost US$'000	Total US$'000
Cash	-	-	600	600
Trading financial assets	3,991	-	-	3,991
Loans	-	468	-	468
Prepaid equity securities contracts	281,353	-	-	281,353
Trade and other receivables	-	-	11,559	11,559
Total financial assets	285,344	468	12,159	297,971
Trading financial liabilities	16.052	-	-	16,052
Trade and other payables	-	-	49	49
Issued warrants	-	281,353	-	281,353
Issued structured notes	-	467	-	467
Total financial liabilities	16,052	281,820	49	297,921

Financial assets and financial liabilities designated at FVPL

Financial assets and liabilities in the table above which are designated at FVPL consist primarily of the following financial assets and financial liabilities:

Loans –These are loans to other Morgan Stanley Group undertakings that, along with derivatives contracts classified as held for trading, are part of the hedging strategy for the obligations arising pursuant to the issuance of the structured notes. Loans are designated at FVPL because the designation at FVPL eliminates or significantly reduces an accounting mismatch which would otherwise arise.

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

Issued warrants – These are zero strike price in nature involving the payment of an initial payment which approximates the fair values of the underlying equity securities at inception. These warrants are designated at FVPL as the risks to which the Company is a contractual party are risk managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

Issued structured notes – These relate to financial liabilities which arise from selling structured products generally in the form of notes or certificates. The structured notes are designated at FVPL as the risks to which the Company is a contractual party are risk managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

	30 June 2020		31 December 2019	
	Assets	Liabilities	Assets	Liabilities
	US$'000	US$'000	US$'000	US$'000
Loans	-	-	468	-
Issued warrants	-	150,570	-	281,353
Issued structured notes	-	-	-	467
	-	150,570	468	281,820

The maximum exposure to credit risk of financial assets which are designated at FVPL as at 30 June 2020 is US$Nil (31 December 2019: US$468,000).

There are no significant gains or losses attributable to change in counterparty credit risk for financial assets designated at FVPL or in own credit risk for financial liabilities designated at FVPL for the period ended 30 June 2020 (31 December 2019: US$Nil).

The Company determines the amount of changes in fair value attributable to changes in counterparty credit risk or own credit risk, as relating to financial assets and financial liabilities designated at FVPL, by first determining the fair value including the impact of counterparty credit risk or own credit risk, and then deducting those changes in fair value representing managed market risk. In determining fair value, the Company considers the impact of changes in its own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for issued structured notes. The Company considers that this approach most faithfully represents the amount of change in fair value due to both counterparty credit risk and the Company's own credit risk.

The carrying amount of financial liabilities designated at FVPL for which all changes in fair value are presented through the condensed statements of comprehensive income was US$Nil lower than the contractual amount due at maturity (31 December 2019: US$Nil lower).

At initial recognition of a specific structured note issuance program, the Company's issuance process, and any planned hedging structure related to the issuance of those structured notes, has been considered, to determine whether the presentation of fair value changes attributable to changes in the credit risk of those structured notes ("DVA") through other comprehensive income would create or enlarge an accounting mismatch in the condensed statements of comprehensive income. If financial instruments, such as derivatives/ loans, measured at fair value for which changes in fair value incorporating counterparty credit risk are reflected within the condensed statements of comprehensive income in 'Net gains/ (losses) on financial assets designated at fair value through profit or loss', are traded to economically hedge the structured note issuances in full, the fair value incorporating any counterparty credit risk ("CVA") arising on the hedging instruments may materially

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

offset any DVA applied to structured notes, where the counterparties of the hedging instruments are part of the Morgan Stanley Group. In such cases, DVA of those structured notes is not reflected within other comprehensive income, and instead is presented in the condensed statement of comprehensive income in 'Net gains/ (losses) on financial liabilities designated at fair value through profit or loss'.

The Company's hedging structure is such that the fair value movements on the derivatives and loans, including CVA, are recognised in the condensed statements of comprehensive income and offset the fair value movements including DVA on the issued structured notes. The counterparty credit risk of the hedging instruments is strongly correlated with the own credit risk of the Company, as the counterparties are members of the Morgan Stanley Group.

7. TRADING FINANCIAL ASSETS AND LIABILITIES

Trading assets and trading liabilities are summarised as follows:

	30 June 2020		31 December 2019	
	Assets	Liabilities	Assets	Liabilities
	US$'000	US$'000	US$'000	US$'000
Derivatives- Equity contracts				
Bilateral OTC	263	6,526	344	476
Issued listed derivative contracts	-	23,579	-	15,576
Other listed derivative contracts	2,408	-	3,647	-
	2,671	30,105	3,991	16,052

8. TRADE AND OTHER RECEIVABLES

	30 June 2020	31 Dec 2019
	US$'000	US$'000
Trade receivables	8,022	785
Other receivables		
Amounts due from other Morgan Stanley Group undertakings	19,743	10,774
	27,765	11,559

9. TRADE AND OTHER PAYABLES

	30 June 2020 US$'000	31 Dec 2019 US$'000
Trade payables	1,008	-
Other payables		
Amounts due to other Morgan Stanley Group undertakings	152	49
	1,160	49

10. EQUITY

	Ordinary shares of US$1 each Number
Authorised	
At 1 January 2019, 31 December 2019 and 30 June 2020	50,000

	Ordinary shares of US$1 each	
	Number	US$
Issued and fully paid		
At 1 January 2019, 31 December 2019 and 30 June 2020	50,000	50,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled, on a show of hands, to one vote and, on a poll, one vote per share at meetings of shareholders of the Company. All shares rank equally with regard to the Company's residual assets.

11. ADDITIONAL CASH FLOW INFORMATION

a. Cash and cash equivalents

For the purposes of the condensed statements of cash flows, cash and cash equivalents comprise cash. which have less than three months maturity from the date of acquisition.

b. Reconciliation of cash flows from operating activities

	30 June 2020 US$'000	30 June 2019 US$'000
Result for the period	-	-
Adjustments for:		
Net trading expense on financial assets	20,072	-
Net trading (income)/ expense on financial liabilities	(19.820)	7
Net losses/ (gains) on other financial assets held at fair value	14,782	(37,565)
Net (gains)/ losses on other financial liabilities held at fair value	(14,808)	37,558
Interest income	(226)	-
Operating cash flows before changes in operating assets and liabilities	-	-
Changes in operating assets		
(Increase)/ decrease in trade and other receivables	(7.508)	451
Decrease/ (Increase) in trading financial assets	1,320	(159)
Changes in operating liabilities		
Increase in trade and other payables	1,111	127
Increase in trading financial liabilities	14,053	-
Net cash flows from operating activities	8,976	419

c. Reconciliation of liabilities arising from financing activities

	Balance at 1 January 2020	Cash flows	Non-cash changes		Balance at 30 June 2020
			Foreign exchange revaluation	Fair value changes	
	US$'000	US$'000	US$'000	US$'000	US$'000
Issued warrants	281,353	(111,775)	-	(19,008)	150,570
Issued structured notes	467	(469)	(1)	3	-
Total liabilities from financing activities	281.820	(112,244)	(1)	(19,005)	150,570

11. ADDITIONAL CASH FLOW INFORMATION (CONTINUED)

c. Reconciliation of liabilities arising from financing activities (continued)

	Balance at 1 January 2019	Cash flows	Non-cash changes		Balance at 30 June 2019
			Foreign exchange revaluation	Fair value changes	
	US$'000	US$'000	US$'000	US$'000	US$'000
Issued warrants	285,269	(80,089)	129	33,174	238,483
Issued structured notes	1,863	(1,381)	-	(4)	478
Total liabilities from financing activities	287,132	(81,470)	129	33,170	238,961

12. SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments. The business segment and geographical segment are based on the Company's management and internal reporting structure.

Business segment

Morgan Stanley structures its business segments primarily based upon the nature of the financial products and services provided to customers and Morgan Stanley's internal management structure. The Company's own business segment is consistent with that of Morgan Stanley.

The Company has one reportable business segment, Institutional Securities which includes the issuance of structured products and the hedging of the obligations arising pursuant to such issuance.

Geographical segment

The Company operates in one geographic region, Asia. The basis for attributing external revenue and total assets to one geographic region is determined by trading desk location.

13. FINANCIAL RISK MANAGEMENT

Risk management procedures

Risk is an inherent part of both the Morgan Stanley Group's and the Company's business activity and is managed by the Company within the context of the broader Morgan Stanley Group. The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures. The Company's own risk management policies and procedures are consistent with those of the Morgan Stanley Group.

The principal activity of the Company continues to be the issuance of financial instruments under a Warrant and Note Programme and the economic hedging of the obligations arising pursuant to such issuances. It is the policy and objective of the Company not to be exposed to market risk as a result of its issuance activities. On the issuance of each financial instrument, the Company enters into economic hedges of its obligations by purchasing financial instruments from another Morgan Stanley Group entity and from the market.

Significant risks faced by the Company resulting from its issuance activities and hedging strategies are set out below.

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company.

Credit risk management

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. The credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, compliance with established limits and escalating risk concentrations to appropriate senior management.

The Company may incur credit risk in its warrant issuance business through a variety of activities, including, but not limited to, the following:

- entering into derivative contracts under which counterparties may have obligations to make payments to the Company;
- providing short or long-term funding to Morgan Stanley Group undertakings;

The Company hedges all of its financial liabilities by entering into prepaid OTC contracts with its immediate parent, derivative contracts with other Morgan Stanley Group undertakings and other derivative contracts. Except for cash and other derivative contracts, the Company enters into all of its financial asset transactions with other Morgan Stanley Group undertakings, and both the Company and the other Morgan Stanley Group undertakings are wholly owned subsidiaries of the same ultimate parent entity, Morgan Stanley. As a result of the implicit support that would be provided by Morgan Stanley, the Company is considered exposed to the credit risk of Morgan Stanley, except where the Company transacts with other Morgan Stanley Group undertakings that have a higher credit rating to that of Morgan Stanley.

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Exposure to credit risk and exposure to credit risk by internal rating grades

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 30 June 2020 is disclosed below, based on the carrying amounts of the financial assets which the Company believes are subject to credit risk. The table includes financial instruments subject to expected credit losses ("ECL") and not subject to ECL. Those financial instruments that bear credit risk but are not subject to ECL are subsequently measured at fair value. The table below does not include receivables arising from pending securities transactions with market counterparties as credit risk is insignificant. Where the Company enters into credit enhancements, including receiving or paying cash and security as collateral and master netting agreements, to manage the credit exposure on these financial instruments the financial effect of the credit enhancements is also disclosed in Note 14 *'Financial Assets and Financial Liabilities Subject to Offsetting'*.

The Company does not have any exposure arising from items not recognised on the balance sheet.

The Company does not hold financial assets considered to be credit impaired.

The following table provides an analysis of the credit risk exposure by ECL stage per class of recognised financial instrument subject to ECL, based on the following internal credit rating grades:

Investment grade: internal grades AAA - BBB

Non-investment grade: internal grades BB - CCC

Default: internal grades D

Internal credit ratings are derived using methodologies generally consistent with those used by external agencies.

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to credit risk and exposure to credit risk by internal rating grades (Continued)

30 June 2020

	Gross credit exposure (1)(2) US$'000	Counterparty	Rating	Credit grade
Subject to ECL(3)(4):				
Cash	145	Standard Chartered Bank	A	Investment Grade
	46	ANZ Bank Limited	A	Investment Grade
	427	The Hong Kong and Shanghai Banking Corporation Limited	A	Investment Grade
	261	Sumitomo Mitsui Banking Corp	A	Investment Grade
Total Cash	879			
Trade and other receivables	19,743	Morgan Stanley Asia Securities Products LLC	BBB	Investment Grade
	6,096	Morgan Stanley & Co. International plc	A	Investment Grade
Total trade and other receivables	25,839			
Not subject to ECL(5):				
Trading financial assets	263	Morgan Stanley & Co. International plc	A	Investment Grade
	2,408	Hong Kong Securities Clearing Company Limited	A	Investment Grade
Total Trading financial assets	2,671			
Prepaid equity securities contracts	150,570	Morgan Stanley Asia Securities Products LLC	BBB	Investment Grade

(1) The carrying amount recognised in the condensed statements of financial position best represents the Company's maximum exposure to credit risk.

(2) Of the gross credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional US$68,548,000 to be offset in the ordinary course of business and/ or in the event of default as disclosed in Note 14 financial assets and liabilities subject to offsetting.

(3) Both cash and trade and other receivables are at stage 1.

(4) There is no ECL and loss allowance on cash and trade and other receivables.

(5) Financial assets measured at FVPL are not subject to ECL.

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to credit risk and exposure to credit risk by internal rating grades (Continued)

31 December 2019

	Gross credit exposure (1)(2) US$'000	Counterparty	Rating	Credit grade
Subject to ECL(3)(4):				
Cash	85	Standard Chartered Bank	A	Investment Grade
	48	ANZ Bank Limited	A	Investment Grade
	210	The Hong Kong and Shanghai Banking Corporation Limited	A	Investment Grade
	257	Sumitomo Mitsui Banking Corp	A	Investment Grade
Total Cash	600			
Trade and other receivables	10,774	Morgan Stanley Asia Securities Products LLC	BBB	Investment Grade
	118	Morgan Stanley & Co. International plc	A	Investment Grade
Total trade and other receivables	10,892			
Not subject to ECL(5):				
Trading financial assets	344	Morgan Stanley & Co. International plc	A	Investment Grade
	3,647	Hong Kong Securities Clearing Company Limited	A	Investment Grade
Total trading financial assets	3,991			
Loans	468	Morgan Stanley International Finance S.A.	BBB	Investment Grade
Prepaid equity securities contracts	281,353	Morgan Stanley Asia Securities Products LLC	BBB	Investment Grade

(1) The carrying amount recognised in the condensed statements of financial position best represents the Company's maximum exposure to credit risk.

(2) Of the gross credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional US$154,328,000 to be offset in the ordinary course of business and/ or in the event of default as disclosed in Note 14 financial assets and liabilities subject to offsetting.

(3) Both cash and trade and other receivables are at stage 1.

(4) There is no ECL and loss allowance on cash and trade and other receivables.

(5) Financial assets measured at FVPL are not subject to ECL.

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten the Company's viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding. Generally, the Company incurs liquidity risk as a result of its trading, lending and investing activities.

The Company's liquidity risk management policies and procedures are consistent with those of the Morgan Stanley Group.

The primary goal of the Company's liquidity risk and funding management framework is to ensure that the Company has access to adequate funding across a wide range of market conditions and time horizons. The framework is designed to enable the Company to fulfil its financial obligations and support the execution of its business strategies.

The following principles guide the Morgan Stanley Group's liquidity risk management framework:

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows;
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding;
- Source, counterparty, currency, region, and term of funding should be diversified; and
- Liquidity Stress Tests should anticipate, and account for, periods of limited access to funding.

The Company hedges all of its financial liabilities by entering into prepaid OTC contracts with its immediate parent, derivative contracts with other Morgan Stanley Group undertakings and other derivative contracts. In general, the maturity profile of the financial assets matches the maturity profile of the financial liabilities

The core components of the Morgan Stanley Group's liquidity management framework, which includes consideration of the liquidity risk for each individual legal entity, are the Required Liquidity Framework, Liquidity Stress Tests and the Global Liquidity Reserve, which support the Morgan Stanley Group's target liquidity profile.

Required Liquidity Framework

The Required Liquidity Framework establishes the amount of liquidity the Morgan Stanley Group must hold in both normal and stressed environments to ensure that its financial condition and overall soundness is not adversely affected by an inability (or perceived inability) to meet its financial obligations in a timely manner. The Required Liquidity Framework considers the most constraining liquidity requirement to satisfy all regulatory and internal limits.

Liquidity Stress Tests

The Morgan Stanley Group uses Liquidity Stress Tests to model external and intercompany liquidity flows across multiple scenarios and a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events of different severity and duration. The methodology, implementation, production and analysis of the Liquidity Stress Tests are important components of the Required Liquidity Framework.

The Liquidity Stress Tests are produced for Morgan Stanley and its major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability at various legal entities. The Liquidity Stress Tests assume that subsidiaries will use their own liquidity first to fund their obligations before drawing liquidity from Morgan Stanley. It is also assumed that Morgan Stanley will support its subsidiaries and

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

Liquidity Stress Tests (continued)

will not have access to cash that may be held at certain subsidiaries. In addition to the assumptions underpinning the Liquidity Stress Tests, the Morgan Stanley Group takes into consideration the settlement risk related to intra-day settlement and clearing of securities and financial activities.

Since the Company hedges the liquidity risk of its financial liabilities with financial assets that match the maturity profile of the financial liabilities, the Company is not considered a major operating subsidiary for the purposes of liquidity risk. However, the Company would have access to the cash or liquidity reserves held by Morgan Stanley in the unlikely event that it was unable to access adequate financing to service its financial liabilities when they become payable.

The Required Liquidity Framework and Liquidity Stress Tests are evaluated on an ongoing basis and reported to the Firm Risk Committee, Asset/Liability Management Committee, and other appropriate risk committees.

Global Liquidity Reserve

The Morgan Stanley Group maintains sufficient liquidity reserves (the "Global Liquidity Reserve") to cover daily funding needs and to meet strategic liquidity targets sized by the Required Liquidity Framework and Liquidity Stress Tests. The size of the Global Liquidity Reserve is actively managed by the Morgan Stanley Group considering the following components: unsecured debt maturity profile; balance sheet size and composition; funding needs in a stressed environment inclusive of contingent cash outflows; and collateral requirements. In addition, the Morgan Stanley Group's Global Liquidity Reserve includes a discretionary surplus based on the Morgan Stanley Group's risk tolerance and is subject to change depending on market and firm-specific events. The Global Liquidity Reserve consists of cash and unencumbered securities sourced from trading assets, investment securities and securities received as collateral.

The Morgan Stanley Group's Global Liquidity Reserve, to which the Company has access, is held within Morgan Stanley and its major operating subsidiaries and is composed of diversified cash and cash equivalents and unencumbered highly liquid securities.

Eligible unencumbered highly liquid securities including US government securities, US agency securities, US agency mortgage-backed securities, non-US government securities and other highly liquid investment grade securities.

The ability to monetise assets during a liquidity crisis is critical. The Morgan Stanley Group believes that the assets held in its Global Liquidity Reserve can be monetised within five business days in a stressed environment given the highly liquid and diversified nature of the reserves.

Funding management

The Morgan Stanley Group manages its funding in a manner that reduces the risk of disruption to the Morgan Stanley Group's and the Company's operations. The Morgan Stanley Group pursues a strategy of diversification of secured and unsecured funding sources (by product, investor and region) and attempts to ensure that the tenor of the Morgan Stanley Group's, and the Company's, liabilities equals or exceeds the expected holding period of the assets being financed.

The Morgan Stanley Group funds its balance sheet on a global basis through diverse sources, which includes consideration of the funding risk of each legal entity. These sources may include the Morgan Stanley Group's equity capital, long-term borrowing, securities sold under agreements to repurchase ("repurchase agreements"), securities lending, deposits, letters of credit and lines of credit. The Morgan Stanley Group has active financing programmes for both standard and structured products, targeting global investors and currencies.

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

Balance sheet management

In managing both the Morgan Stanley Group's and the Company's funding risk, the composition and size of the entire balance sheet, not just financial liabilities, is monitored and evaluated. The liquid nature of the securities and short-term receivables arising principally from sales and trading activities in Institutional Securities business provides the Morgan Stanley Group and the Company with flexibility in managing the size of its balance sheet.

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts, prepaid equity securities contracts, loans, issued warrants and issued structured notes are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial assets and financial liabilities are managed. All other amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 30 June 2020 and 31 December 2019. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2020

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

Maturity analysis(continued)

30 June 2020	On Demand US$'000	Less than 1 month US$'000	Equal to or more than 1 month but less than 3 months US$'000	Equal to or more than 3 months but less than 1 year US$'000	Equal to or more than 1 year but less than 5 years US$'000	Total US$'000
Financial assets						
Cash	879	-	-	-	-	879
Trading financial assets	-	130	984	1,190	367	2,671
Prepaid equity securities contracts	-	8,337	73,407	68,826	-	150,570
Trade and other receivables [(1)]	9,016	-	-	-	18,749	27,765
Total financial assets	9,895	8,467	74,391	70,016	19,116	181,885
Financial liabilities						
Trading financial liabilities	-	1,526	2,798	17,889	7,892	30,105
Trade and other payables	1,160	-	-	-	-	1,160
Issued warrants	-	9,430	72,314	68,826	-	150,570
Total financial liabilities	1,160	10,956	75,112	86,715	7,892	181,835
31 December 2019						
Financial assets						
Cash	600	-	-	-	-	600
Trading financial assets	-	-	-	454	3,537	3,991
Loans	-	-	-	468	-	468
Prepaid equity securities contracts	-	-	20,247	255,840	5,266	281,353
Trade and other receivables [(1)]	1,507	-	-	-	10,052	11,559
Total financial assets	2,107	-	20,247	256,762	18,855	297,971
Financial liabilities						
Trading financial liabilities	-	956	463	5,581	9,052	16,052
Trade and other payables	49	-	-	-	-	49
Issued warrants	-	45,405	20,247	210,435	5,266	281,353
Issued structured notes	-	-	-	467	-	467
Total financial liabilities	49	46,361	20,710	216,483	14,318	297,921

(1) Trade and other receivables include certain receivables due from the Company's direct parent undertaking which is dated on a rolling 395 day term and includes a voluntary bilateral early settlement provision. Although these receivables are disclosed based on the required contractual maturity excluding the effect of voluntary bilateral early settlement provision, it is expected that early repayment can be agreed with the Company's direct parent undertaking if required.

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Market risk is identified by IFRS 7 'Financial instruments: Disclosures' ("IFRS 7") as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The issued warrants and issued structured notes expose the Company to the risk of changes in market prices of the underlying securities, interest rate risk and, where denominated in currencies other than US dollars, the risk of changes in rates of exchange between the US dollar and the other relevant currencies. The Company uses the risk mirroring contracts that it purchases from other Morgan Stanley Group undertakings to match the price risk, foreign currency and other market risks associated with the issuance of the warrants and structured notes, consistent with the Company's risk management strategy. As such, the Company is not exposed to any net market risk on these financial instruments. Different components of market risks from the issued securities resulting into price movements in underlying securities, exchange rates and others will be offset by the same but opposite price movements in the risk-mirroring contracts. Due to Company's hedging strategy, the gain in the equity price sensitivity analysis as shown in table below will be hedged and offset by fair value movements into risk-mirroring contracts.

Sound market risk management is an integral part of the Company's and Morgan Stanley Group's culture. The Company is responsible for ensuring that market risk net exposures are well managed, monitored and remain flat. The Company also ensures transparency of material market risks, monitors compliance with established limits, and escalates risk concentrations to appropriate senior management.

The market price risk exposure from the financial assets is mainly equity price risk, interest rate risk and currency risk, although all such risks are offset by equal and offsetting exposure to risk on the issued securities. Equity price risk refers to the risk of changes in the equity price of the assets underlying these financial assets.

Equity price sensitivity analysis

The sensitivity analysis below is determined based on the exposure to equity price risk at 30 June 2020 and 31 December 2019 respectively.

The market risk related to such equity price risk is measured by estimating the potential reduction in total comprehensive income associated with a 10% decline in the underlying equity price as shown in the table below.

	Impact on Total Comprehensive Income Gains/(losses)	
	30 June 2020	**31 December 2019**
	US$'000	**US$'000**
Trading financial assets	(267)	(399)
Prepaid equity securities contracts	(15,057)	(28,135)
Trading financial liabilities	3,010	1,605
Issued warrants	15,057	28,135
	2,743	1,206

The Company's equity price risk is mainly concentrated on equity securities in Asia.

Interest rate risk

Interest rate risk is defined by IFRS 7 as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is primarily exposed to interest rate risk

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Interest rate risk (continued)

under this definition as a result of changes in the future cash flows of floating rate intercompany loans held at amortised cost and at fair value.

The application of a parallel shift in market interest rates of 50 basis points increase or decrease to these positions, would result in a net gain or loss of approximately US$371 (31 December 2019: US$160) in the condensed statements of comprehensive income.

14. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In order to manage credit exposure arising from its business activities, the Company applies various credit risk management policies and procedures, see note 13 for further details. Primarily in connection with the issuance of warrants and related hedging activities, the Company enters master netting arrangements and collateral arrangements with certain counterparties. These agreements provide the Company with the right, in the ordinary course of business and/ or in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), to net a counterparty's rights and obligations under such agreement and, in the event of counterparty default, set off collateral held by the Company against the net amount owed by the counterparty.

In the condensed statements of financial position, financial assets and financial liabilities are only offset and presented on a net basis where there is a current legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the assets and the liabilities simultaneously. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

The following tables present information about offsetting of financial instruments.

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts US$'000	Amounts offset in the condensed statement of financial position US$'000	Net amounts presented in the condensed statement of financial position US$'000
30 June 2020			
Assets			
Trading financial assets	2,671	-	2,671
Prepaid equity securities contracts	150,570	-	150,570
Trade and other receivables	27,765	-	27,765
TOTAL	**181,006**	-	**181,006**
Liabilities			
Trading financial liabilities	30,105	-	30,105
Trade and other payables	1,160	-	1,160
Issued warrants	150,570	-	150,570
TOTAL	**181,835**	-	**181,835**

14. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING (CONTINUED)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements, by counterparty:

	Net amounts presented in the condensed statement of financial position US$'000	Amounts not offset in the condensed statement of financial position		
		Financial instruments US$'000	Cash collateral [2] US$'000	Net exposure US$'000
30 June 2020				
Assets				
Morgan Stanley & Co. International plc	6,359	(263)	(6,096)	-
Morgan Stanley Asia Securities Products LLC [1]	170,313	(61,181)	-	109,132
Others	4,334	(1,008)	-	3,326
TOTAL	**181,006**	**(62,452)**	**(6,096)**	**112,458**
Liabilities				
Morgan Stanley & Co. International plc	6,526	(263)	(6,096)	167
Morgan Stanley Asia Securities Products LLC	61,181	(61.181)	-	-
Morgan Stanley & Co. LLC	47	-	-	47
Others	114,081	(1,008)	-	113,073
TOTAL	**181,835**	**(62,452)**	**(6,096)**	**113,287**

(1) These are amounts that would be offset in the ordinary course of business and/ or in the event of default according to the intercompany cross-product legally enforceable netting arrangements with the respective Morgan Stanley Group undertakings.

(2) The cash collateral relating to trading financial assets and trading financial liabilities not offset is recognised in the condensed statements of financial position within Trade and other receivables.

14. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING (CONTINUED)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts US$'000	Amounts offset in the statement of financial position US$'000	Net amounts presented in the statement of financial position US$'000
31 December 2019			
Assets			
Trading financial assets	3,991	-	3,991
Loans	468	-	468
Prepaid equity securities contracts	281,353	-	281,353
Trade and other receivables	11,559	-	11,559
TOTAL	**297,371**	**-**	**297,371**
Liabilities			
Trading financial liabilities	16,052	-	16,052
Trade and other payables	49	-	49
Issued warrants	281,353	-	281,353
Issued structured notes	467	-	467
TOTAL	**297,921**	**-**	**297,921**

14. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING (CONTINUED)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements, by counterparty:

	Net amounts presented in the statement of financial position	Amounts not offset in the statement of financial position		
		Financial instruments	Cash collateral [2]	Net exposure
	US$'000	US$'000	US$'000	US$'000
31 December 2019				
Assets				
Morgan Stanley & Co. International plc	462	(344)	(118)	-
Morgan Stanley Asia Securities Products LLC [1]	292,127	(153,866)	-	138,261
Morgan Stanley International Finance S.A.	468	-	-	468
Others	4,314	-	-	4,314
TOTAL	**297,371**	**(154,210)**	**(118)**	**143,043**
Liabilities				
Morgan Stanley & Co. International plc	476	(344)	(118)	14
Morgan Stanley Asia Securities Products LLC	153,866	(153,866)	-	-
Morgan Stanley & Co. LLC	47	-	-	47
Others	143,532	-	-	143,532
TOTAL	**297,921**	**(154,210)**	**(118)**	**143,593**

(1) These are amounts that would be offset in the ordinary course of business and /or in the event of default according to the intercompany cross-product legally enforceable netting arrangements with the respective Morgan Stanley Group undertakings.

(2) The cash collateral relating to trading financial assets and trading financial liabilities not offset is recognised in the condensed statement of financial position within Trade and other receivables.

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

a. Financial assets and liabilities recognised at fair value on a recurring basis

The following tables present the carrying value of the Company's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy.

30 June 2020	Quoted prices in active market (Level 1) US$'000	Valuation techniques using observable inputs (Level 2) US$'000	Valuation techniques with significant unobservable inputs (Level 3) US$'000	Total US$'000
Trading financial assets	2,408	263	-	2,671
Prepaid equity securities contracts	-	150,570	-	150,570
Total financial assets measured at fair value	2,408	150,833	-	153,241
Trading financial liabilities	1,190	28,915	-	30,105
Issued warrants	-	150,570	-	150,570
Total financial liabilities measured at fair value	1,190	179,485	-	180,675
31 December 2019				
Trading financial assets	3,647	344	-	3,991
Loans	-	468	-	468
Prepaid equity securities contracts	-	281,353	-	281,353
Total financial assets measured at fair value	3,647	282,165	-	285,812
Trading financial liabilities	14,302	1,750	-	16,052
Issued warrants	-	281,353	-	281,353
Issued structured notes	-	467	-	467
Total financial liabilities measured at fair value	14,302	283,570	-	297,872

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

a. Financial assets and liabilities recognised at fair value on a recurring basis (Continued)

The Company's valuation approach and fair value hierarchy categorisation for all classes of financial instruments recognised at fair value on a recurring basis is as follows:

Asset and Liability / Valuation Technique	Valuation Hierarchy Classification
Derivatives	
Listed Derivative Contracts • Listed derivatives that are actively traded are valued based on quoted prices from the exchange. • Listed derivatives that are not actively traded are valued using the same techniques as those applied to OTC derivatives.	• Level 1 - listed derivatives that are actively traded • Level 2 - listed derivatives that are not actively traded
OTC Derivative Contracts • OTC derivative contracts include option contracts related to equity prices. • Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled using a series of techniques, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgement, since model inputs may be observed from actively quoted markets, as is the case for option contracts. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry.	• Generally Level 2 - OTC derivative products valued using observable inputs, or where the unobservable input is not deemed significant • Level 3 - OTC derivative products for which the unobservable input is deemed significant
Prepaid equity securities contracts, issued warrants and issued structured notes	
• The Company issues warrants, structured notes and trades prepaid equity securities contracts that have coupon or repayment terms linked to the performance of equity securities, indices or currencies. • Fair value of warrants, structured notes and prepaid equity securities contracts is determined using valuation models for the derivative and debt portions of the notes and traded prepaid equity securities contracts. These models incorporate inputs referencing identical or comparable securities, including prices to which the notes are linked, interest rate yield curves, option volatility and currency rates, and equity prices. • Independent, external and traded prices for the notes are considered as well as the impact of the Company's own credit spreads which are based on secondary bond market spreads.	• Generally Level 2 • Level 3 – in instances where the unobservable inputs are deemed significant
Loans	
• The fair value of loans to other Morgan Stanley Group undertakings is estimated based on the present value of expected future cash flows using its best estimate of interest rate yield curves.	• Generally Level 2

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

b. Transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities recognised at fair value on a recurring basis.

During the year, the Company reclassified approximately US$1,971,000 (31 December 2019: US$Nil) of trading financial liabilities from Level 1 to Level 2. The reclassifications were due to a reduction in the volume of recently executed transactions and market price quotations for the listed equity derivatives.

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis

The following table presents the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the period ended 31 December 2019. There are no financial instruments classified as Level 3 as at 30 June 2020. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. The realised and unrealised gains/ (losses) for assets and liabilities within the Level 3 category presented in the following tables do not reflect the related realised and unrealised gains/(losses) on hedging instruments that have been classified by the Company within the Level 1 and/ or Level 2 categories.

Unrealised gains/(losses) during the period for assets and liabilities within the Level 3 category presented in the following table herein may include changes in fair value during the period that were attributable to both observable and unobservable inputs.

The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. Where the trading positions included in the below table are risk managed using financial instruments held by other Morgan Stanley Group undertakings, these policies potentially result in the recognition of offsetting gains or losses in the Company.

There were no transfers between Level 2 and Level 3 of the fair value hierarchy during the period.

31 December 2019	Balance at 1 January 2019 US$'000	Total gains or (losses) recognised in statement of comprehensive income [1] US$'000	Purchases US$'000	Sales US$'000	Settlements US$'000	Net transfers in and / or out of Level 3 US$'000	Balance at 31 December 2019 US$'000	Unrealised gains or (losses) for Level 3 assets / liabilities outstanding as at 31 December 2019 US$'000
Prepaid equity securities contracts	27,934	862	-	(28,796)	-	-	-	-
Total financial assets measured at fair value	27,934	862	-	(28,796)	-	-	-	-
Issued warrants	(27,934)	(862)	-	-	28,796	-	-	-
Total financial liabilities measured at fair value	(27,934)	(862)	-	-	28,796	-	-	-

[1] The total gains or (losses) are recognised in the statements of comprehensive income as detailed in the financial instruments accounting policy (note 3(c)) in the Company's annual financial statements for the year ended 31 December 2019.

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

d. Assets and liabilities measured at fair value on a non-recurring basis

Non-recurring fair value measurements of assets or liabilities are those which are required or permitted in the condensed statements of financial position in particular circumstances. There were no assets or liabilities measured at fair value on a non-recurring basis during the current or prior period.

16. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

For all financial instruments not measured at fair value, the carrying amount is considered to be a reasonable approximation of fair value.

17. RELATED PARTY DISCLOSURES

Parent and subsidiary relationships

Parent and ultimate controlling entity

The Company's immediate parent undertaking is Morgan Stanley Asia Securities Products LLC, which is registered in the Cayman Islands.

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley is incorporated in the State of Delaware, the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

Key management compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel include the Board of Directors of the Company.

Due to the nature of the Company's activities, key management personnel provide minimal services specific to the Company and as a result, no compensation is paid to key management personnel in respect of their services to the Company.

Transactions with related parties

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings on an arm's length basis for the purposes of utilising financing, trading and risk management, and infrastructure services. The nature of these relationships along with information about the transactions and outstanding balances is given below. All the amounts outstanding as disclosed below are unsecured and will be settled in cash or via intercompany mechanism. The Company has not recognised any expense and has made no provision for impairment relating to the amount of outstanding balances from related parties (31 December 2019: US$Nil).

Audit fees has been borne by another Morgan Stanley Group undertaking in both the current and prior period.

All issuances of financial liabilities are guaranteed by Morgan Stanley.

17. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

Funding

The Company receives funding from and provides funding to other Morgan Stanley Group undertakings in the following forms:

General funding

General funding is undated, unsecured, floating rate lending, other than certain funding which is dated on a rolling 395 day term. Funding may be received or provided for specific transaction related funding requirements, or for general operational purposes. The interest rates are established by the Morgan Stanley Group Treasury function for all entities within the Morgan Stanley Group and approximate the market rate of interest that the Morgan Stanley Group incurs in funding its business.

Details of the outstanding balances on these funding arrangements and the related interest income recognised in the statements of comprehensive income during the year are shown in the table below:

	30 June 2020		31 December 2019	
	Interest $'000	**Balance $'000**	**Interest $'000**	**Balance $'000**
Rolling 395 day term				
Amounts due from:				
The Company's direct parent undertakings	175	18,749	122	10,052
Undated				
Amounts due from:				
The Company's direct parent undertakings	2	994	-	722
Amounts due to:				
Other Morgan Stanley Group undertakings	-	47	-	47

Trading and risk management

The Company issues warrants and structured notes and hedges the obligations arising from the issuance by entering into prepaid equity securities contracts, derivative contracts and loans designated at FVPL with other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis. These transactions may give rise to credit risk either for the Company, or to a related party towards the Company.

17. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

Trading and risk management (continued)

The total amounts receivable and payable on issued warrants, issued structured notes, prepaid equity securities contracts, derivative contracts, loans designated at FVPL and trade and other receivables outstanding at the period-end were as follows:

	30 June 2020 US$'000	31 December 2019 US$'000
Amounts due from:		
The Company's direct parent undertaking	150,570	281,353
Other Morgan Stanley Group undertakings [(1)]	6,359	930
	156,929	282,283
Amounts due to:		
The Company's direct parent undertaking	61,180	153,886
Other Morgan Stanley Group undertakings	6,526	523
	67,706	154,409

(1) Amounts due from other Morgan Stanley Group undertakings include cash collateral of US$6,096,000 (31 December 2019: $118,000) pledged by the Company to Morgan Stanley & Co. International plc to mitigate risk on exposures arising under derivatives contracts between the Company and other Morgan Stanley & Co. International plc.

Other related party transactions

The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. The Company receives management charges by recharging certain expenses, including fees paid to the stock exchange, to the Company's direct parent undertaking. For the period ended 30 June 2020, a management charge of US$4,343,000 (30 June 2019: US$Nil) was recognised in the statements of comprehensive income arising from such policies. An outstanding receivable relating to the management charge at reporting date is included within the general funding balances disclosed above.