DISCIPLINARY DECISION
Cboe C2 Exchange, Inc.
Star Nos. 20150442463 and 20170535088
File Nos. USRI-8678-02 and USRI-8762-02
Morgan Stanley & Co. LLC

Pursuant to Exchange Rule 13.3, attached to and incorporated as part of this Decision is a Letter of Consent.

Applicable Rule(s)

- C2 Rules[1] 4.1 – Just and Equitable Principles of Trade and 6.55 – Trading on Knowledge of Imminent Undisclosed Solicited Transaction

Sanction

A censure, a monetary fine in the amount of $52,140, and disgorgement in the amount of $12,031

Acceptance Date

June 10, 2020

Effective Date

August 5, 2020

/s/ Greg Hoogasian

Greg Hoogasian, CRO, SVP

[1] In May 2018, C2 renumbered Rule 6.55 to Rule 6.51.

Cboe C2 Exchange, Inc.
LETTER OF CONSENT
Star Nos. 20150442463 and 20170535088
File Nos. USRI-8678 and USRI-8762

In the Matter of:

Morgan Stanley & Co. LLC
1585 Broadway
New York, NY 10036

Subject

Pursuant to the provisions of Cboe C2 Exchange, Inc. ("C2" or the "Exchange") Rule 13.3 – Expedited Proceeding, Morgan Stanley & Co. LLC ("Morgan Stanley" or the "Firm") submits this Letter of Consent for the purpose of proposing a settlement of the alleged rule violations described below.

The Firm neither admits nor denies the allegations for Star Nos. 20150442463 and 20170535088, and the stipulation of facts and findings described herein do not constitute such an admission.

BACKGROUND

1. During all relevant periods herein, the Firm was acting as a registered Broker-Dealer and was an Exchange Trading Permit Holder registered to conduct business on the Exchange as a Clearing Trading Permit Holder, a Market-Maker and a Proprietary Trading Permit Holder. In addition, during all relevant periods, the Firm was approved to transact business with the public. The Firm's registrations remain in effect.

2. This matter originated from investigations in FINRA's Department of Market Regulation to determine whether the Firm engaged in prohibited anticipatory hedging activity.

VIOLATIVE CONDUCT

Applicable Rules

3. During all relevant periods, C2 Rules 4.1 – Just and Equitable Principles of Trade and 6.55 – Trading on Knowledge of Imminent Undisclosed Solicited Transaction, were in full force and effect.[1]

[1] In May 2018, C2 amended its Rulebook whereby Rule 6.55 was renumbered as Rule 6.51. The rules are substantively the same, except that the term "Participant" was changed to "Trading Permit Holder." At all relevant times, Morgan Stanley was a Participant and Trading Permit Holder within the definitions of C2 Rules. *See* Securities

4. During all relevant periods, C2 Rule 6.55 provided, in relevant part: "It will be considered conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1 for any Participant or person associated with a Participant, who has knowledge of all material terms and conditions of an original order and a solicited order, including a facilitation order, that matches the original order's limit, the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option of the same class as an option that is the subject of the original order, or an order to buy or sell the security underlying such class, or an order to buy or sell any related instrument until either (a) all the terms and conditions of the original order and any changes in the terms and conditions of the original order of which that Participant or associated person has knowledge are disclosed to the trading crowd or (b) the solicited trade can no longer reasonably be considered imminent in view of the passage of time since the solicitation. For purposes of this Rule, an order to buy or sell a "related instrument" means, in reference to an index option, an order to buy or sell securities comprising ten percent or more of the component securities in the index or an order to buy or sell a futures contract on any economically equivalent index. With respect to an SPX option, an OEX option is a related instrument, and vice versa."

5. On October 28, 2014, at approximately 10:44:16 a.m., a Firm trader received a client order to buy 1,250 put options of a certain exchange-traded fund ("ABC")[2] tied to 95,000 shares of ABC stock ("Customer Order 1"). During a telephone call from 10:47:22 to 10:47:55, the Morgan Stanley trader sent Customer Order 1 to another broker-dealer for execution with instructions to cross the client order. At 10:48:25, after Morgan Stanley had received Customer Order 1, but prior to disclosure to the trading crowd of the material terms and conditions of Customer Order 1, the Morgan Stanley trader bought for a Firm account 1,082 ABC put options, of which 138 contracts executed on C2, expecting the Firm to facilitate the client order. At 10:48:30, the other broker-dealer sent Customer Order 1 to another exchange for electronic execution as a Qualified Contingent Cross ("QCC");[3] the order executed at 10:49:17.

6. On or about March 9, 2017, at approximately 8:32:43, Morgan Stanley received a customer order to buy 6,842 DEF put index option contracts ("Customer Order 2"). While in possession of Customer Order 2, the execution of which was imminent, and prior to disclosure of Customer Order 2 to the trading crowd, Morgan Stanley

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Exchange Act Release No. 83214 (May 11, 2018), 83 FR 22796 (May 16, 2018) (SR-C2-2018-005). Effective October 7, 2019, C2 Rule 4.1 was renumbered as C2 Rule 5.1. The text of the rule was not changed.

[2] A generic identifier has been used in place of the names of the referenced securities or stock indexes. The index options described in this Letter of Consent are listed on Cboe Exchange, Inc.

[3] QCC orders are part of a multi-leg strategy that involves both stocks and options and consists of two or more legs, one of which is an NMS stock, effected at a price that has been agreed to by the parties, and the execution of one component is contingent upon the execution of all other components at or near the same time. Additionally, the components must bear a derivative relationship to one another and constitute a full hedge against each other without regard to prior existing positions. QCCs allow institutional brokers to cross these block orders electronically without exposing them to the market, as long as the order is priced at or better than the National Best Bid/Offer.

purchased 20,000 GHI put option contracts between 8:32:45 and 8:32:54 in order to hedge its expected facilitation of Customer Order 2, of which 1,081 executed on C2.

7. The acts, practices and conduct described in Paragraphs 5 and 6 constitute violations of C2 Rules 4.1 and 6.55 by Morgan Stanley in that Morgan Stanley, with knowledge of the terms and conditions of the Customer Orders, effected transactions for its Firm account in related securities prior to disclosure of the terms and conditions of the Customer Orders to the trading crowd.

SANCTIONS

8. Morgan Stanley has no relevant disciplinary history with respect to C2. In April 2015, the International Securities Exchange, LLC (now Nasdaq ISE, LLC) censured and fined Morgan Stanley $30,000 for one anticipatory hedge violation that occurred on January 18, 2013 (FINRA Matter No. 20130374127).

9. In light of the alleged rule violations and disciplinary history described above, the Firm consents to the imposition of the following sanctions:

   a. A censure;
   b. A fine in the amount of $52,140; and
   c. Disgorgement in the amount of $12,031.[4]

If this Letter of Consent is accepted, the Firm acknowledges that it shall be bound by all terms, conditions, representations and acknowledgements of this Letter of Consent, and, in accordance with the provisions of Exchange Rule 13.3, waives the right to review or to defend against any of these allegations in a disciplinary hearing before a Hearing Panel. The Firm further waives the right to appeal any such decision to the Board of Directors, the U.S. Securities and Exchange Commission, a U.S. Federal District Court, or a U.S. Court of Appeals.

The Firm waives any right to claim bias or prejudgment of the Chief Regulatory Officer ("CRO") in connection with the CRO's participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including acceptance or rejection of this Letter of Consent.

The Firm agrees to pay the monetary sanction(s) upon notice that this Letter of Consent has been accepted and that such payment(s) are due and payable. The Firm specifically and voluntarily

[4] The Firm consents to a total fine of $325,000 (of which $52,140 shall be paid to C2) and total disgorgement of $40,469 (of which $12,031 shall be paid to C2) in this and another related matter. The remainder of the fine and disgorgement shall be paid to Nasdaq Options Market, LLC, Nasdaq ISE, LLC, Nasdaq BX, Inc., Nasdaq GEMX, LLC, NYSE Arca, Inc., NYSE American LLC, Cboe Exchange, Inc., BOX Exchange, LLC, Miami International Securities Exchange and MIAX PEARL, LLC. Acceptance of this Letter of Consent is conditioned upon acceptance of similar settlement agreements in these matters between the Firm and each of the following self-regulatory organizations: BOX Exchange LLC, Cboe Exchange, Inc., Miami International Securities Exchange, LLC, MIAX PEARL, LLC, The Nasdaq Options Market LLC, Nasdaq ISE, LLC, Nasdaq BX, Inc., Nasdaq GEMX, LLC, NYSE Arca, Inc., and NYSE American LLC.

waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The Firm understands that submission of this Letter of Consent is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the CRO, pursuant to Exchange Rule 13.3. If the Letter of Consent is not accepted, it will not be used as evidence to prove any of the allegations against the Firm.

The Firm understands and acknowledges that acceptance of this Letter of Consent will become part of its disciplinary record and may be considered in any future actions brought by Cboe or any other regulator against the Firm.

The Firm understands that it may not deny the charges or make any statement that is inconsistent with the Letter of Consent. The Firm may attach a Corrective Action Statement to this Letter of Consent that is a statement of demonstrable corrective steps taken to prevent future misconduct. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of the Exchange or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this Letter of Consent and has been given a full opportunity to ask questions about it; that it has agreed to the Letter of Consent's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce the Firm to submit it.

Date: June 5, 2020

Morgan Stanley & Co. LLC

By: [redacted]
S. Anthony Taggart
Managing Director and Counsel