



DISCIPLINARY DECISION

Cboe Exchange, Inc.

Star No. 20170531285/File No. USE-1822

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)

- Cboe Rules 4.2 – Adherence to Law, 4.24 – Supervision, and 15.1 – Maintenance, Retention and Furnishing of Books, Records and Other Information
- Section 17(a) of the Securities Exchange Act of 1934, as amended and Rule 17a-3 – Records to be Made by Certain Exchange Members, Brokers and Dealers, thereunder

Sanction

A censure, a monetary fine in the amount of \$30,000, and an undertaking, as detailed on page 4 of the Letter of Consent, which is attached to and incorporated as part of this Decision.

Effective Date

January 22, 2020

/s/ Greg Hoogasian

Greg Hoogasian, CRO, SVP

Cboe Exchange, Inc.
LETTER OF CONSENT
Star No. 20170531285
File No. USE-1822

In the Matter of:

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

Subject

Pursuant to the provisions of Cboe Exchange, Inc. ("Cboe" or the "Exchange") Rule 13.3 – Expedited Proceeding, Morgan Stanley & Co. LLC (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 No. 20170531285, 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 an examination in FINRA's Trading and Financial Compliance Examinations group (TFCE) that included a review of the Firm's compliance with recordkeeping requirements, including, but not limited to, the maintenance and accuracy of order memoranda.

VIOLATIVE CONDUCT

Applicable Rules

3. During all relevant periods herein, the following rules were in full force and effect: Exchange Rules 4.2 – Adherence to Law, 4.24 – Supervision, and 15.1 – Maintenance, Retention and Furnishing of Books, Records and Other Information; and Section 17(a) of the Securities Exchange Act of 1934, as amended (the

“Exchange Act”) and Rule 17a-3 -- Records to be Made by Certain Exchange Members, Brokers and Dealers thereunder.¹

4. During all relevant periods herein, Rule 17a-3(a), promulgated under the Exchange Act, provided, in relevant part: “Every member of a national securities exchange who transacts a business in securities directly with others than members of a national securities exchange...and every broker or dealer registered pursuant to section 15 of the [Exchange Act]...shall make and keep current the following books and records related to its business: (6)(i) A memorandum of each brokerage order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. The memorandum shall show the terms and conditions of the order or instructions and of any modification or cancellation thereof; the account for which entered; the time the order was received; the time of entry; the price at which executed; the identity of each associated person, if any, responsible for the account; the identity of any other person who entered or accepted the order on behalf of the customer or, if a customer entered the order on an electronic system, a notation of that entry; and, to the extent feasible, the time of execution or cancellation....The term *time of entry* shall mean the time when the member, broker or dealer transmits the order or instruction for execution.”
5. During all relevant periods herein, Exchange Rule 4.24(e) provided, in relevant part: “Each Trading Permit Holder shall establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, to supervise the types of business in which the Trading Permit Holder engages and to supervise the activities of all associated persons. The written supervisory procedures and the system for applying such procedures shall reasonably be designed to prevent and detect violations of applicable securities laws and regulations, and applicable Exchange rules.”

Books and Records

6. From on or about July 17, 2017 through on or about July 21, 2017, the Firm handled approximately 1,176 manual customer orders, 184 of which were manual customer orders routed to Floor Brokers at various options exchanges, including Cboe.² Staff reviewed a sample of 48 of the 184 orders routed to Floor Brokers for time-stamp accuracy.³ Twenty of the sampled manual customer options orders were routed to Cboe Floor Brokers for execution.

¹ Effective October 7, 2019, Cboe Rule 4.2 was renumbered as 8.2; Rule 4.24 was renumbered as 8.16; and 15.1 was renumbered as 7.1.

² Staff notes that the Firm routed an additional 53 manual customer orders to Floor Brokers at an options exchange. However, the Firm was unable to determine to which exchange the orders were routed.

³ From the 184 manual customer options orders, 40 orders, or approximately 22%, were routed to Floor Brokers on Cboe.

7. From on or about July 17, 2017 through on or about July 21, 2017, the Firm failed to record accurate order receipt times for six (6) of the twenty (20) sampled manual customer options orders that were routed to and executed on the Exchange.
8. From on or about July 17, 2017 through on or about July 21, 2017, the Firm failed to record accurate order transmission times for nine (9) of the twenty (20) sampled manual customer options orders that were routed to and executed on the Exchange.
9. From on or about July 17, 2017 through on or about July 21, 2017, the Firm failed to record order transmission times for ten (10) of the twenty (20) sampled manual customer options orders that were routed to and executed on the Exchange.
10. The acts, practices and conduct described in Paragraph 7 constitute violations of Cboe Rules 4.2 and 15.1; and Section 17(a) of the Exchange Act and Rule 17a-3(a)(6)(i) thereunder by the Firm, in that the Firm failed to record accurate order receipt times for six (6) of the twenty (20) sampled manual customer options orders that were routed to and executed on the Exchange.
11. The acts, practices and conduct described in Paragraph 8 constitute violations of Cboe Rules 4.2 and 15.1; and Section 17(a) of the Exchange Act and Rule 17a-3(a)(6)(i) thereunder by the Firm, in that the Firm failed to record accurate order transmission times for nine (9) of the twenty (20) sampled manual customer options orders that were routed to and executed on the Exchange.
12. The acts, practices and conduct described in Paragraph 9 constitute violations of Cboe Rules 4.2 and 15.1; and Section 17(a) of the Exchange Act and Rule 17a-3(a)(6)(i) thereunder by the Firm, in that the Firm failed to record order transmission times for ten (10) of the twenty (20) sampled manual customer options orders that were routed to and executed on the Exchange.

Written Supervisory Procedures

13. Since approximately July 2017, the Firm failed to establish, maintain and enforce Written Supervisory Procedures (“WSPs”), and a system for applying such procedures, reasonably designed to prevent and detect violations of Cboe Rule 15.1; and Section 17(a) of the Exchange Act and Rule 17a-3(a)(6)(i) thereunder. Specifically, the Firm’s WSPs and supervisory system did not include, among other things, a supervisory review for the presence and accuracy of the order receipt and transmission times of manual options orders.
14. The acts, practices and conduct described in Paragraph 13 constitute violations of Exchange Rule 4.24 by the Firm, in that the Firm failed to establish, maintain and enforce WSPs, and a system for applying such procedures, reasonably designed to prevent and detect violations of Cboe Rule 15.1; and Section 17(a) of the Exchange Act and Rule 17a-3(a)(6)(i) thereunder.

SANCTIONS

15. The Firm does not have any relevant disciplinary history.
16. In light of the alleged rule violations described above, and the Firm's prior disciplinary history, the Firm consents to the imposition of the following sanctions:
 - a. A censure;
 - b. A monetary fine in the amount of \$30,000 that shall be paid to Cboe; and
 - c. An undertaking requiring the Firm to address the deficiencies discussed in paragraph 13 of this Letter of Consent. Within 60 days of the date of this Letter of Consent, the Firm shall submit to the COMPLIANCE ASSISTANT, DEPARTMENT OF ENFORCEMENT, 15200 Omega Drive, Suite 300, Rockville, MD 20850-3241, a written report, certified by a senior management firm executive, to MarketRegulationComp@finra.org that provided the following information:
 - (i) a reference to this matter;
 - (ii) a representation that the Firm addressed each of the deficiencies described above, including the specific measure or enhancements taken to address those deficiencies; and
 - (iii) the date the measures or enhancements were implemented

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 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 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: 1/13/2020

Morgan Stanley & Co. LLC

By: 

Name:

JAMES MORGAN

Title:

Counsel to MSCO