



**DISCIPLINARY DECISION**  
**Cboe Exchange, Inc.**  
**File No. URE-32-01/Star No. 20210693303-02**  
**Morgan Stanley & Co. LLC**

Pursuant to Exchange Rule 8.3, attached to and incorporated as part of this Decision is a Letter of Consent.

**Applicable Rules**

- Exchange Rules 5.12 - Transactions Off the Exchange, 6.7 - Off-Floor Transfers of Positions, 8.2 – Adherence to Law, 7.1 – Maintenance, Retention and Furnishing of Books, Records and Other Information, 8.16 – Supervision.
- Section 17(a) of the Exchange Act and Rule 17a-3 – Records to Be Made by Certain Exchange Members, Brokers and Dealers thereunder.

**Sanction**

A censure and a monetary fine of \$168,750.<sup>1</sup>

**Effective Date**

August 27, 2024

/s/ Greg Hoogasian

Greg Hoogasian, CRO, EVP

---

<sup>1</sup> This settlement relates to another settlement resolved by Morgan Stanley & Co. LLC with Cboe C2 Exchange, Inc., Cboe BZX Exchange, Inc., Cboe EDGX Exchange, Inc., and NYSE Arca, Inc.

**Cboe Exchange, Inc.**  
**LETTER OF CONSENT**  
**File No. URE-32-01 /Star No. 2021069330302**

---

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 (“MSCO” or the “Firm”) submits this Letter of Consent for the purposes of proposing a settlement of the alleged rule violations described below.

The Firm neither admits nor denies that violations of Exchange Rules or the Securities Exchange Act of 1934, as amended (“Exchange Act”) and Exchange Act rules have been committed, and the stipulation of facts and findings described herein do not constitute such an admission.

**BACKGROUND**

1. During all relevant periods herein, MSCO 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 a cycle examination of the Firm conducted by FINRA on behalf of the Exchange.

**VIOLATIVE CONDUCT**

**Applicable Rules**

3. During all relevant periods herein, the following rules were in full force and effect: Exchange Rules 5.12 - Transactions Off the Exchange, 6.7 - Off-Floor Transfers of Positions, 8.2 – Adherence to Law, 7.1 – Maintenance, Retention and Furnishing of Books, Records and Other Information, 8.16 – Supervision, and Section 17(a) of the Exchange Act and Rule 17a-3 – Records to Be Made by Certain Exchange Members, Brokers and Dealers thereunder.

4. Exchange Rule 5.12 provided, in relevant part, that subject to exceptions not applicable here, “no Trading Permit Holder acting as principal or agent may effect transactions in any class of option contracts listed on the Exchange for a premium in excess of \$1.00 other than (1) on the Exchange, (2) on another exchange on which such option contracts are listed and traded, or (3) in the over-the-counter market . . . ”
  
5. Exchange Rule 6.7(a) provided, in relevant part: “Notwithstanding the prohibition set forth in Rule 5.12, existing positions in options listed on the Exchange of a Trading Permit Holder or of a Non-Trading Permit Holder that are to be transferred on, from, or to the books of a Clearing Trading Permit Holder may be transferred off the Exchange (an “off-floor transfer”) if the off-floor transfer involves one or more of the following events,” including (1) “an adjustment or transfer in connection with the correction of a bona fide error . . . ;” (2) “the transfer of positions from one account to another account where no change in ownership is involved (i.e., accounts of the same Person<sup>1</sup> (as defined in Rule 1.1));” (3) “the consolidation of accounts where no change in ownership is involved;” (4) “a merger, acquisition, consolidation, or similar non-recurring transaction for a Person;” (5) “the dissolution of a joint account in which the remaining Trading Permit Holder assumes the positions of the joint account;” (6) “the dissolution of a corporation or partnership in which a former nominee of the corporation or partnership assumes the positions;” (7) “positions transferred as part of a Trading Permit Holder’s capital contribution to a new joint account, partnership, or corporation;” (8) “the donation of positions to a not-for-profit corporation;” (9) “the transfer of positions to a minor under the Uniform Gifts to Minors Act; or” (10) “the transfer of positions through operation of law from death, bankruptcy, or otherwise.”
  
6. 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 Act (15 U.S.C. 78o) must make and keep current the following books and records relating 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 a security . . . (A) The memorandum must 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*

---

<sup>1</sup> Exchange Rule 1.1 provided that “[t]he term ‘Person’ means an individual, partnership (general or limited), joint stock company, corporation, limited liability company, trust, or unincorporated organization, or any governmental entity or agency or political subdivision thereof.”

means the time when the member, broker or dealer transmits the order or instruction for execution.”

7. Exchange Rule 7.1 provided, in relevant part: “Each Trading Permit Holder shall make, keep current and preserve such books and records as the Exchange may prescribe and as may be prescribed by the Exchange Act as though such Trading Permit Holder were a broker or dealer registered pursuant to Section 15 of such Act. . . . Trading Permit Holders must comply with all applicable recordkeeping and reporting requirements under the Rules.”
8. Exchange Rule 8.2 provided: “No Trading Permit Holder shall engage in conduct in violation of the Securities Exchange Act of 1934, as amended, rules or regulations thereunder, the Bylaws or the Rules of the Exchange, or the Rules of the Clearing Corporation insofar as they relate to the reporting or clearance of any Exchange transaction, or any written interpretation thereof. Every Trading Permit Holder shall so supervise persons associated with the Trading Permit Holder as to assure compliance therewith.”
9. Exchange Rule 8.16 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.”

### **Improper Position Transfer**

10. On May 3, 2021, the Firm effected an off-floor transfer of approximately 50,000 options contracts between two customer accounts of different Persons, as defined under Exchange Rule 1.1 – Customer A, a limited liability company, and Customer B, a separate limited liability company which was also a member of Customer A. The customers requested the transfer to facilitate Customer B’s withdrawal of its interest in Customer A. Although the ultimate beneficial ownership of the options contracts that were transferred remained unchanged, the direct ownership of the contracts changed from one legal entity to another and therefore the transaction did not constitute a transfer between the accounts of the same Person pursuant to Exchange Rule 6.7(a)(2). Further, while there is an exemption for transfers involving a merger, acquisition, consolidation, or similar non-recurring transaction under Exchange Rule 6.7(a)(4), this transaction did not qualify for that exemption because Customer A continued to exist following the transaction. The transfer also did not qualify for any other exemptions provided under Cboe Rule 6.7(a) to the general prohibition against off-floor position transfers.
11. The acts, practices, and conduct described in Paragraph 10 constitute violations of Exchange Rules 5.12 and 6.7, in that the Firm effected an off-floor transfer that did

not qualify for any exemption provided under Cboe Rule 6.7 to the general prohibition against off-floor position transfers.

### **Books and Records**

12. From March 2020 through July 2023, the Firm recorded inaccurate order transmission times for thousands of customer options orders manually routed by the Firm to floor brokers or interdealer brokers for execution on Cboe and other options exchanges (“customer floor broker orders”). Specifically, the Firm did not accurately record transmission times for over 21,200, or 79%, of its customer floor broker orders executed during the period of March 2020 through July 2023.
13. Additionally, the Firm failed to accurately record the venue of execution for approximately 19 percent of the customer floor broker orders sampled by FINRA during a 2021 cycle examination of the Firm.
14. The acts, practices, and conduct described in Paragraphs 12 and 13 constitute violations of Exchange Rules 8.2 and 7.1, and Section 17(a) of the Exchange Act and Rule 17a-3(a)(6)(i) thereunder, in that the Firm failed to record accurate order transmission times and venue of execution for its manual customer options orders.

### **Supervision**

15. From at least March 2020 through July 2023, the Firm failed to establish, maintain, and enforce WSPs, and a system for applying such procedures, reasonably designed to prevent and detect violations of applicable federal securities laws and Exchange Rules that require order transmission times and venue of execution for orders routed to floor brokers and interdealer brokers for execution to be accurately documented. Until April 2023, the Firm relied on a review of a sample of manual options orders to monitor the accuracy of its order records, but the Firm’s WSPs did not set forth the sample size or any methodology for identifying the sample, and, in practice, the Firm reviewed an unreasonably small order sample size. In May 2023, the Firm implemented a daily exception report that flags potentially inaccurate order records for supervisory review.
16. The acts, practices and conduct described in Paragraph 15 constitute violations of Exchange Rule 8.16 by the Firm, in that the Firm failed to establish, maintain, and enforce WSPs, and a system for applying such procedures, reasonably be designed to prevent and detect violations of Exchange Rule 7.1 and Section 17(a) of the Exchange Act and Rule 17a-3(a)(6)(i) thereunder.

### **SANCTIONS**

17. The Firm has prior relevant disciplinary history related to its failures to maintain accurate records of manual customer options orders and to supervise for compliance with the applicable recordkeeping rules.

18. In January 2020, the Firm consented to a censure and a fine of \$30,000 for its violations of Exchange Rules 4.2,<sup>2</sup> 15.1,<sup>3</sup> and 4.24,<sup>4</sup> and Exchange Act Rule 17a-3(a)(6)(i), for its failure to maintain accurate records of order receipt time, order transmission time, and order execution venue for manual customer options orders, and its related supervisory deficiencies.<sup>5</sup> The Firm was also required to submit a written report identifying the specific measures implemented by the Firm to address the supervisory deficiencies. The Firm submitted the written report in March 2020.
19. In light of the alleged rule violations described above and the Firm's prior relevant disciplinary history, the Firm consents to the imposition of the following sanctions:
  - a. A censure, and
  - b. A monetary fine in the amount of \$168,750.<sup>6</sup>

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.

---

<sup>2</sup> Effective October 7, 2019, Rule 4.2 was renumbered Rule 8.2.

<sup>3</sup> Effective October 7, 2019, Rule 15.1 was renumbered Rule 7.1.

<sup>4</sup> Effective October 7, 2019, Rule 4.24 was renumbered Rule 8.16.

<sup>5</sup> Matter No. 20170531285/File No. USE-1822 (January 22, 2020).

<sup>6</sup> This settlement relates to other settlements the Firm reached with Cboe C2 Exchange, Inc., Cboe BZX Exchange, Inc., Cboe EDGX Exchange, Inc., and NYSE Arca, Inc.

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:** August 16, 2024  
\_\_\_\_\_

**Morgan Stanley & Co. LLC**

**By:** \_\_\_\_\_  
\_\_\_\_\_

**Name:** Kathleen Salvaty  
\_\_\_\_\_

**Title:** Executive Director  
\_\_\_\_\_